

GREAT WATER HOLDINGS LIMITED 建禹集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8196

PLACING

Sole Sponsor, Sole Bookrunner and Sole Lead Manager



Shenwan Hongyuan Capital (H.K.) Limited

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



**GREAT WATER
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建禹集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

**LISTING ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED
BY WAY OF PLACING**

Number of Placing Shares : 75,000,000 Placing Shares

**Placing Price : HK\$0.96 per Placing Share, plus brokerage
of 1%, SFC transaction levy of 0.0027%
and Stock Exchange trading fee of
0.005% (payable in full on application
and subject to refund)**

Nominal value : HK\$0.01 per Share

Stock code : 8196

Sole Sponsor



Shenwan Hongyuan Capital (H.K.) Limited

Sole Bookrunner and Sole Lead Manager



Shenwan Hongyuan Capital (H.K.) Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix VI to this prospectus, has been registered with the Registrar of Companies as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including but not limited to the risk factors set out in the section headed “Risk Factors” in this prospectus.

Prospective investors of the Placing Shares should note that the Sole Sponsor (for itself and on behalf of the Underwriters) is entitled to terminate the obligations of the Underwriters under the Underwriting Agreement by means of a notice in writing given by the Sole Sponsor (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set out in the section headed “Underwriting — Underwriting Arrangements and Expenses — Grounds for termination” in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Sponsor (for itself and on behalf of the Underwriters) terminate the Underwriting Agreement, the Placing will not proceed and will lapse.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is by publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at www.hkexnews.hk in order to obtain up-to-date information on companies listed on GEM.

EXPECTED TIMETABLE

2015⁽¹⁾

Announcement of the level of indication of interest in the Placing to be published on

(i) the Stock Exchange's website at www.hkexnews.hk; and

(ii) our Company's website⁽²⁾ at www.greatwater.com.cn on Tuesday, 8 December

Allotment/transfer of Placing Shares to placees on Tuesday, 8 December

Deposit of share certificates for the Placing Shares into CCASS on⁽³⁾ Tuesday, 8 December

Dealings in the Shares on GEM to commence at 9:00 a.m.⁽⁴⁾ on Wednesday, 9 December⁽⁵⁾

Notes:

1. All times and dates refer to Hong Kong local times and dates.
2. Neither our Company's website nor any of the information contained on our Company's website forms part of this prospectus.
3. Share certificates for the Placing Shares allotted and issued/transferred to the placees are expected to be deposited directly into CCASS on Tuesday, 8 December 2015 for credit to the respective CCASS participants' or the CCASS investor participants' stock accounts designated by the Sole Sponsor (for itself and on behalf of the Underwriters), the placees or their agents (as the case may be). No temporary documents or evidence of title will be issued by our Company.
4. All share certificates for the Placing Shares will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms at any time prior to 8:00 a.m. on the Listing Date. If the Placing does not become unconditional or the Underwriting Agreement is terminated in accordance with its terms, we will make an announcement on the Stock Exchange's website at www.hkexnews.hk and on our Company's website at www.greatwater.com.cn as soon as possible.
5. If there is any change to the above expected timetable, we will make an appropriate announcement on the Stock Exchange's website at www.hkexnews.hk and on our Company's website at www.greatwater.com.cn to inform investors accordingly.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Placing and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Placing Shares offered by this prospectus. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.

You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager, the Underwriters, any of their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Placing.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Placing Shares. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary” in this prospectus.

OUR BUSINESS

We are principally in the business of providing engineering services for building wastewater treatment facilities in the PRC. We take the role as the main contractor to essentially manage the entire project from initiation to final commissioning (“**EPC project**”), or participate as an equipment contractor who provides technical advice and equipment procurement services for a pre-defined section of a project (“**equipment project**”).

During the Track Record Period, we also participated in other environmental protection projects. We took charge of the installation work relating to a flue gas treatment system to support a thermal power plant, and procured the necessary equipment for such system. In addition, we took on a soil remediation project in which we applied the wastewater treatment know-how we accumulated over the years.

As ancillary services, we offered customers O&M (operation and maintenance) services to manage their water treatment plants and various engineering advisory services relating to upgrading water treatment facilities and installation of a boiler system together with a dust collection system during the Track Record Period.

The table below sets forth our revenue breakdown by business segments and project category for the periods/years indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Wastewater/Drinking								
Water Treatment Projects								
— EPC projects	42,147	67.1	25,624	21.0	4,206	30.1	5,655	9.0
— Equipment projects	—	—	68,365	55.9	3,999	28.7	44,908	71.2
Subtotal	42,147	67.1	93,989	76.9	8,205	58.8	50,563	80.2
Other Environmental Protection								
Projects								
— Construction projects	2,807	4.5	722	0.6	73	0.5	10,734	17.0
— Equipment projects	16,666	26.5	18,967	15.5	4,924	35.3	33	0.1
Subtotal	19,473	31.0	19,689	16.1	4,997	35.8	10,767	17.1
O&M/Technical advisory services	1,196	1.9	8,544	7.0	754	5.4	1,721	2.7
TOTAL	62,816	100.0	122,222	100.0	13,956	100.0	63,051	100.0

SUMMARY

2014 marked an important milestone to us. Having accumulated years of experience in wastewater EPC projects, primarily for private enterprises, we managed to establish business relationship with several state-owned enterprises and were able to participate as the equipment contractor in more sizeable BOT projects relating to the building of municipal wastewater/drinking water treatment facilities. We acted as the equipment contractor for six and three municipal wastewater/drinking water treatment BOT projects with aggregate revenue of RMB68.4 million and RMB44.9 million for the year ended 31 December 2014 and the six months ended 30 June 2015, respectively. These equipment projects were public projects and were usually larger in size as compared to EPC projects.

In our industry, customer satisfaction drives repeated businesses and business referrals. In late 2011, we, as the EPC contractor, completed the building of a wastewater treatment plant for a subsidiary company, namely Pacific (Panyu) Textiles Limited (互太(番禺)紡織印染有限公司), of a sizable listed textile manufacturer for its operation in Panyu, Guangdong Province. In December 2013, we were contracted by this same listed group to build another wastewater treatment plant for its Vietnamese subsidiary's operation in Vietnam. Our Directors consider this is a sign of customer satisfaction that our services were called upon again when the customer was expanding its business overseas. Nevertheless, it is our present plan to continue to focus our business in the PRC and we will only consider extending our services to overseas projects, particularly for those we have experience and expertise, if so requested by our customers in the PRC.

Given our proven track record in the wastewater treatment engineering services industry, and the increasingly stringent effluent standards imposed by the government, we are confident we will continue to capture various business opportunities in order to grow our business in the PRC.

Characteristics of our business

Our work

During the Track Record Period, a majority of the EPC project customers were industrial enterprises. They engaged us to construct treatment facilities for their respective industrial operation.

In an EPC project, there usually involve two major parts of work we need to handle, namely (i) to appoint sub-contractors to construct the physical structure to support the water tanks, piping network, as well as the treatment system, and to perform installation work, and (ii) to design the treatment system and procure the necessary equipment and machinery for it. Normally, construction of the physical structural work has to be completed before the installation of the treatment system can take place. As an EPC contractor, we have to oversee the progress of the entire project from initiation to final commissioning.

Our equipment project customers are usually BOT operators of municipal wastewater/drinking water treatment projects, which are typically bigger in size as compared to industrial wastewater projects. The BOT operator usually divides the project into several sections for different contractors to handle. For equipment projects, our engineering and technical team has to work closely with the project owner/operator in order to formulate the treatment system best suited to the project requirements before our procurement team can source the necessary materials for building the treatment system.

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Working capital requirement

For EPC projects, the amount of payments to sub-contractors/suppliers for settling project costs usually exceeds the amount of receipts of project billings until we reach the stage where the treatment facility has been fully tested and accepted by the customer. Typically, the average duration of an EPC project runs around 18 months. Therefore, in the first 9 to 12 months of the project, on average, we would experience a cash flow deficit amounting to around 15% to 20% of the entire project cost, which needs to be funded by our working capital.

For equipment projects, we usually try to align the billing schedule and the billing amount to customers with the payment terms granted by the corresponding suppliers to minimise the amount of cash flow deficit.

Therefore, as part of our internal control, our financial controller prepares a 90-day rolling cashflow forecast for our directors' review on a bi-weekly basis to ensure we have sufficient working capital and banking facility to take on new projects.

Timing difference between the revenue recognition and issuance of invoices

For our EPC, construction and equipment projects, we generally do not issue invoice to our customer before the recognition of the respective types of revenue. During the Track Record Period, for some of our equipment projects, we often issued invoice to our customer at a later time after we recognised the relevant revenue for the equipment delivered, examined and accepted by the customer pursuant to the revenue recognition accounting policy based on applicable HKFRS. This was mainly because the relevant equipment supplier had not invoiced us when we recognised the revenue for the equipment, and hence we were unable to proceed with invoicing our customers for such equipment, so as to offset the payment obligation on the output VAT arising from sales against input VAT arising from purchases. Some of the equipment we procure for our equipment projects is tailor-made specifically for the project facility, and the supplier often needs to assemble the equipment with parts sourced from different providers. The supplier could only invoice us when it has received all the relevant invoices from the parts providers, and, as a result, this often causes the supplier's delay in invoicing us. While we generally match the timing of invoice receipt from our supplier for our purchase with the timing of invoice issuance to our customers for our sales, in the event we do not receive the invoice from our supplier before our issuance of invoice to our customers, we would have to fulfill our payment obligation on the output VAT arising from our sales first, and subsequently receive the refund in respect of the input VAT arising from our purchase, resulting in a temporary additional cash outlay in respect of the settlement of our VAT payable.

For details of our policies on revenue recognition and issuance of invoices, please see the paragraph headed "Financial Information — Net Current Assets — Trade and Bills Receivables" in this prospectus. To the best of the knowledge and belief of our executive Directors, based on their industry experience, the timing difference between the revenue recognition and issuance of relevant invoices is a common occurrence in this industry.

SUMMARY

Long average debtors turnover days

We had long average debtors turnover days of 101.1, 141.3 and 208.7 days for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. In our industry, customers usually would not accept to pay us entirely based on the percentage of completion method. They normally would bargain for tying the payment of a major portion of the contract value to their final acceptance of the entire project, in addition to retaining 10% of the contract value for a 12-month warranty period after the successful operation of the treatment facilities. As a result, there is always a substantial time gap between the dates of revenue recognition and invoice settlement by our customers, which contributes to the long average debtors turnover days. Specifically, during the Track Record Period, we extended the due date for certain progress billing invoices from our usual 30 days credit term (i) to the completion of the entire project, which was more than 12 months from the date of invoice issuance (for our EPC and construction projects); or (ii) to the final acceptance of the entire project by our customers, which could be around 80 days to 400 days from the date of invoice issuance (for our equipment projects), though the relevant equipment and machinery has been delivered and fully installed. Despite the long average debtor turnover days we experienced, we did not record any impairment loss on our trade receivables during the Track Record Period.

Please see the paragraphs headed “Business — Our Pricing Policy and Credit Policy — Credit Policy” and “Financial Information — Net Current Assets — Trade and Bills Receivables” in this prospectus for discussions on our credit policy, revenue recognition and invoice issuance policies, and the increase in our average debtors turnover days during the Track Record Period.

Bidding success

During the Track Record Period, our project contracts were obtained through tender by private invitation and set out below is our bidding statistics:

	Number of tenders submitted	Number of tenders won	Success %
<i>For the year ended 31 December 2013</i>			
Tender Amount			
— Below RMB1 million	5	5	100%
— Above RMB1 million	13	8	62%
	18	13	72%

For the year ended 31 December 2014

Tender Amount			
— Below RMB1 million	7	6	86%
— Above RMB1 million	23	9	39%
	30	15	50%

SUMMARY

	Number of tenders submitted	Number of tenders won	Success %
<i>For the six months ended 30 June 2015</i>			
Tender Amount			
— Below RMB1 million	1	0	0%
— Above RMB1 million	8	5	63%
	9	5	56%

Throughout the Track Record Period

Tender Amount			
— Below RMB1 million	13	11	85%
— Above RMB1 million	44	22	50%
	57	33	58%

Customers

We always pride ourselves on the portfolio of customers we have served. They are mainly the leading enterprises in their respective industries, such as textile, food processing, chemical manufacturing and municipal wastewater treatment. Most of them are part of a listed group or owned by state-owned entities in the PRC. Since our wastewater treatment engineering business is primarily project-based, our customers tend to vary from period-to-period. During the Track Record Period, we generated revenue from a total of 32 customers. Our five largest customers together accounted for 97.7%, 67.4% and 92.6% of our total revenue for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. Our revenue from our largest customer accounted for 36.4%, 16.1% and 41.1% of our total revenue for the corresponding periods, respectively. The majority of our Company's revenue was derived from contracts awarded through tender by private invitation from our customers and was not recurring in nature. All of our five largest customers during the Track Record Period are Independent Third Parties. Our Directors confirm that we did not have any material dispute with or claim from any of our customers which would have had a material impact on our business, financial condition or result of operations during the Track Record Period.

Suppliers

We source parts, equipment and machinery from approved suppliers in the PRC to build the treatment systems for EPC and equipment projects. Although we do not enter into any long-term agreement with any suppliers, we do not foresee any difficulties in replacing suppliers if necessary, as the items we purchase are usually readily available from different alternative suppliers in the market. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, the five largest suppliers accounted for 34.3%, 22.9% and 33.2% respectively of our total cost of sales, while the largest supplier accounted for 17.8%, 5.7% and 8.3% respectively of our total cost of sales. Our business

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relationships with the five largest suppliers have generally lasted for 0.5 to 2.5 years. All of our five largest suppliers during the Track Record Period are Independent Third Parties. Our Directors confirm that we did not have any significant dispute with any of our suppliers during the Track Record Period.

Sub-contractors

In building a wastewater treatment plant, we usually involve sub-contractors to perform construction of the physical structure to support the treatment system and equipment installation work, under the close supervision and management of our project management team. We also engage sub-contractors for our soil remediation project for solid waste collection, solid waste incineration and transportation services. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, sub-contracting costs attributable to the five largest sub-contractors accounted for 47.3%, 17.6% and 19.0% respectively of our total cost of sales, while sub-contracting costs attributable to the largest sub-contractor accounted for approximately 26.5%, 11.9% and 6.8% respectively of the total cost of sales. Our business relationships with the five largest sub-contractors have generally lasted for 0.5 to 2.5 years. No long-term contract had been entered into between our Group and our five largest sub-contractors during the Track Record Period. All of our five largest sub-contractors during the Track Record Period are Independent Third Parties. Our Directors confirm that we did not have any significant dispute with any of our sub-contractors during the Track Record Period.

COMPETITIVE LANDSCAPE AND MARKET POSITION

In 2014, the market size of the entire wastewater treatment engineering services industry was approximately RMB59 billion in the PRC. The top five participants accounted for approximately 16.3% of the market share by revenue in the PRC in 2014, whilst our Group accounted for approximately 0.16% of the market share.

Our Directors are optimistic about the future outlook of the wastewater treatment engineering services industry due to the favourable market backdrop resulting from: (i) increased awareness of environmental protection; (ii) government support and regulations; and (iii) rapid urbanisation and continuing industrialisation.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

- Established proven track record
- Experienced and stable management team
- Diverse experience and capabilities
- Stringent quality, environmental protection and safety controls

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BUSINESS OBJECTIVES AND STRATEGIES

We seek to achieve sustainable growth in our business and to create long-term shareholder's value by maintaining and enhancing our position in the PRC's wastewater treatment engineering service industry, as well as gradually expanding into other environmental protection businesses. We intend to achieve this by implementing the following business strategies:

- Continue to strengthen our market position
- Expand our soil remediation project business
- Continue to enhance our R&D capabilities
- Upgrade our qualifications in construction and engineering design
- Fund the working capital for our EPC projects

SUMMARY OF FINANCIAL INFORMATION

The following tables set forth a summary of our financial information and should be read in conjunction with our financial information in the Accountants' Report set out in Appendix I, including the notes thereto.

Highlights of combined statements of profit or loss and other comprehensive income

	Year ended		Six months ended	
	31 December		30 June	
	2013	2014	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
Revenue	62,816	122,222	13,956	63,051
Cost of sales	(47,093)	(86,495)	(10,511)	(45,828)
Gross profit	15,723	35,727	3,445	17,223
Profit before tax	9,745	26,607	514	7,960
Profit for the year/period	8,217	22,712	404	5,892
Total comprehensive income for the year/period	9,942	24,345	2,038	5,879

Our overall revenue increased by 94.6%, from RMB62.8 million for the year ended 31 December 2013 to RMB122.2 million for the year ended 31 December 2014. The significant increase was primarily attributable to (i) the substantial increase in revenue from our equipment projects under wastewater/drinking water treatment segment and other environmental protection project segment for the year ended 31 December 2014 and (ii) the increase of revenue derived from our O&M/technical advisory services for year ended 31 December 2014. Our revenue increased significantly from RMB14.0 million for the six months ended 30 June 2014 to RMB63.1 million for the six months ended 30 June 2015 as driven by the increased revenue derived from our wastewater/drinking water equipment projects in the first half of 2015.

SUMMARY

Our net profit went up by 176.8%, from RMB8.2 million for the year ended 31 December 2013 to RMB22.7 million for the year ended 31 December 2014. The increase primarily corresponded to (i) our overall substantial business expansion in wastewater/drinking water equipment projects, which yielded a higher profit margin; and (ii) the completion of the two relatively high margin advisory contracts. Our net profit went up from RMB0.4 million for the six months ended 30 June 2014 to RMB5.9 million for the six months ended 30 June 2015, which was mainly due to the strong growth of our wastewater/drinking water treatment equipment project business during the period as mentioned above.

The following table sets forth our gross profit and its margin by business segment and project category for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Wastewater/Drinking Water								
Treatment Projects								
— EPC projects	10,115	24.0	2,993	11.7	828	19.7	1,132	20.0
— Equipment projects	—	—	22,114	32.3	1,423	35.6	11,906	26.5
Subtotal	10,115	24.0	25,107	26.7	2,251	27.4	13,038	25.8
Other Environmental Protection								
Projects								
— Construction projects	460	16.4	130	18.0	12	16.4	3,266	30.4
— Equipment projects	4,439	26.6	3,082	16.3	782	15.9	5	15.2
Subtotal	4,899	25.2	3,212	16.3	794	15.9	3,271	30.4
O&M/Technical advisory services	<u>709</u>	59.3	<u>7,408</u>	86.7	<u>400</u>	53.1	<u>914</u>	53.1
TOTAL	<u>15,723</u>	25.0	<u>35,727</u>	29.2	<u>3,445</u>	24.7	<u>17,223</u>	27.3

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, our overall gross profit margins were 25.0%, 29.2%, 24.7% and 27.3%, respectively. The fluctuations of our overall gross profit margin throughout the Track Record Period were attributable to the mix of our projects during the corresponding year/period. For further details of our financial performance, please refer to the section headed “Financial Information — Period-to-Period Comparison of Results of Operations” of this prospectus.

SUMMARY

Highlights of combined statements of financial position

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>2015</i>
			<i>RMB'000</i>
Non-current assets	22,713	24,541	25,669
Current assets	49,648	102,697	180,693
Current liabilities	34,320	60,492	134,542
Net current assets	15,328	42,205	46,151
Net assets	35,475	63,890	69,239

The increase in net assets as at 31 December 2014 and 30 June 2015 was mainly due to the profit we made during the year/period.

Highlights of combined statements of cash flows

The following table is a condensed summary of our combined statements of cash flows during the Track Record Period:

	Year ended 31 December		Six months
	2013	2014	ended
	<i>RMB'000</i>	<i>RMB'000</i>	30 June
			<i>2015</i>
			<i>RMB'000</i>
Net cash from/(used in) operating activities	6,439	10,810	(10,652)
Net cash used in investing activities	(606)	(160)	(1,153)
Net cash (used in)/from financing activities	<u>(20,163)</u>	<u>3,440</u>	<u>13,408</u>
Net (decrease)/increase in cash and cash equivalents	(14,330)	14,090	1,603
Cash and cash equivalents at beginning of year/period	17,775	3,446	17,532
Effect of foreign exchange rate changes, net	<u>1</u>	<u>(4)</u>	<u>(27)</u>
Cash and cash equivalents at end of year/period	<u><u>3,446</u></u>	<u><u>17,532</u></u>	<u><u>19,108</u></u>

For the year ended 31 December 2013, we had net cash used in financing activities amounting to RMB20.2 million, as a result of repayment of RMB20 million short-term bank borrowings. For the year ended 31 December 2014, our net increase in cash and cash equivalent was mainly derived from cash generated from operating activities. For the six months ended 30 June 2015, we had net cash used in operating activities amounting to RMB10.7 million, mainly due to the increase in prepayment and deposits in connection with the advance payments to our sub-contractor and equipment suppliers for the newly signed projects in the first half of 2015. For further details of the advance payments to subcontractor and equipment suppliers, please refer to the section headed “Financial Information — Certain Selected Statements of Financial Position Line Items — Prepayments, Deposits and Other Receivables” of this prospectus.

SUMMARY

SELECTED KEY FINANCIAL RATIOS

The table below sets out our selected key financial ratios as of the dates or for the years indicated:

	As at 31 December		As at 30 June
	2013	2014	2015
Current ratio (times)	1.4	1.7	1.3
Quick ratio (times)	1.3	1.6	1.3
Gearing ratio	N/A	N/A	21.7%
Net debt to equity ratio	Net cash	Net cash	Net cash
			Six months ended
	Year ended 31 December		30 June
	2013	2014	2015
Gross profit margin	25.0%	29.2%	27.3%
Net profit margin	13.1%	18.6%	9.3%
Return on equity	23.2%	35.5%	17.0% ^(Note)
Return on assets	11.4%	17.9%	5.7% ^(Note)
Interest coverage (times)	60.8	167.3	48.7

Note: Return on equity and return on assets for the six months ended 30 June 2015 are calculated on an annualised basis.

For detailed discussions on our selected key financial ratios, please refer to the sections headed “Financial Information — Period-to-Period Comparison of Results of Operations” and “Financial Information — Major Financial Ratios Analysis” of this prospectus.

SHAREHOLDER INFORMATION

Immediately following completion of the Placing, the Company is owned as to 30.45% by Oceanic Expert, 22.37% by Waterman Global and 14.68% by Great Time. Oceanic Expert is wholly-owned by Perfect Wave which in turn is wholly-owned by Mr. Xie. Waterman Global is wholly-owned by Thinker Global which in turn is wholly-owned by Ms. Gong. Great Time is wholly-owned by Topman Ventures which in turn is wholly-owned by Mr. Song. Mr. Xie, Mr. Song, Ms. Gong, Perfect Wave, Oceanic Expert, Thinker Global, Waterman Global, Topman Ventures and Great Time are the Controlling Shareholders of our Company.

Mr. Xie is an executive Director, our Chairman and our Chief Executive Officer, and is also a director of Hongran EP, Lintao EP, Guangzhou Great Water and Great Water Hong Kong. In December 1989, Mr. Xie was charged with the offence of disrupting public order and was convicted and sentenced to two years’ imprisonment. For details of Mr. Xie’s past conviction, please refer to the paragraph headed “Directors, Senior Management and Staff — Directors” on pages 163 and 164 of this prospectus. Notwithstanding the aforesaid, our Directors are of the view, and the Sole Sponsor concurs, that Mr. Xie is suitable to act as a Director under Rules 5.01 and 5.02 of the GEM Listing Rules.

SUMMARY

PLACING STATISTICS

Market capitalisation^(Note 1) HK\$288,000,000

Unaudited pro forma adjusted combined
net tangible asset value per Share^(Note 2) HK\$0.48

Notes:

1. The calculation of the market capitalisation of our Shares is based on the Placing Price of HK\$0.96 each and 300,000,000 Shares in issue immediately after completion of the Placing.
2. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at on the basis that 300,000,000 Shares were in issue after the completion of Placing.

FUTURE PLANS AND USE OF PROCEEDS

Based on the Placing Price of HK\$0.96 per Share, the net proceeds of HK\$48.7 million from the Placing are intended to be applied as follows:

Plans	Approximate amount of net proceeds or %		
Strengthen our market position	HK\$14.4 million	or	29.6%
Expand our soil remediation project business	HK\$2.6 million	or	5.3%
Enhance our R&D capabilities	HK\$12.1 million	or	24.9%
Upgrade our qualification in construction and design engineering	HK\$2.0 million	or	4.1%
Fund the working capital for EPC projects	HK\$17.6 million	or	36.1%

PRINCIPAL RISK FACTORS

Our Group believes that there are certain risks and uncertainties involved in our operations, some of which are beyond our Group's control. They can be broadly categorised into risks relating to our business and risks relating to our industry. Potential investors are advised to read the section headed "Risk Factors" carefully before making any investment decision in the Placing. The following highlights some of the risks which are considered to be particularly material by our Directors:

- Our historical growth rate, revenue and profit margin may not be an indication of our future growth rate, revenue and profit margin
- Our revenue is mainly derived from our wastewater treatment engineering services (in the form of EPC and equipment projects) which are not recurring in nature and a failure to continue to obtain new projects would affect our operations and financial results
- Significant time gaps sometimes exist between the dates of revenue recognition and invoice settlement by our customers and it is possible that our customers may delay or default in progress payment, or fail to settle the trade receivables on time

SUMMARY

- Our customers may make claims against us and/or terminate our services in whole or in part prematurely should we breach the terms of our agreements with them or fail to implement projects which fully satisfy their requirements and expectations
- Failure to accurately estimate the overall risks or costs of our contracts, or the time needed to complete the projects may lead to cost overruns, schedule delays, lower profitability or even losses on projects under such contracts
- We are dependent on the performance of our sub-contractors

LISTING EXPENSES

Based on the Placing Price of HK\$0.96 per Placing Shares, the estimated total listing expenses in relation to the Listing are approximately HK\$23.3 million, of which approximately: (1) HK\$7.0 million is expected to be capitalised upon Listing; and (2) HK\$16.3 million is chargeable to our profit and loss accounts. Out of this amount, approximately HK\$1.8 million and HK\$6.1 million had been charged to our profit and loss account for the year ended 31 December 2014 and the six months ended 30 June 2015 respectively, and a further amount of approximately HK\$8.4 million is expected to be charged to our profit and loss account as administrative expenses for the six months ending 31 December 2015. Further details are set out in the section headed “Financial Information — Listing Expenses” in this prospectus. **Prospective investors should note that our financial results for the year ending 31 December 2015 will be affected by the estimated non-recurring listing expenses described above, and may or may not be comparable to the financial performance of our Group in the past.**

DIVIDENDS AND DIVIDEND POLICY

We did not declare any dividends for the year ended 31 December 2013 and 2014 and the six months ended 30 June 2015. We currently do not have a formal dividend policy or a fixed dividend distribution ratio. The declaration of dividends is subject to our discretion, and the amounts of dividends actually declared and paid will also depend upon our operating results (mainly derived from the operations of Guangzhou Great Water in the PRC and the distribution of its earnings to our Company in the form of dividends), financial condition, operating and capital requirements, the amount of distributable profit and other factors which we may deem relevant. Currently, we have no plan to distribute any dividends from our undistributed profits earned up to 30 June 2015 in the foreseeable future. The amount of dividends that we have declared and paid in the past does not indicate the dividends that we may pay in the future. Please refer to the section headed “Financial Information — Dividend Policy” in this prospectus for further details regarding our dividend policy.

RECENT DEVELOPMENTS SUBSEQUENT TO THE TRACK RECORD PERIOD

As at 30 June 2015, save for the O&M projects, we had the following uncompleted projects on hand: (i) four EPC projects and three equipment projects under the wastewater/drinking water treatment segment; (ii) one other environmental protection construction project; and (iii) two technical advisory projects, with the aggregate value of works to be completed amounting to approximately RMB72.2 million. Our Directors expect that the above-mentioned uncompleted projects on hand, save for a new

SUMMARY

wastewater/drinking water EPC project of contract value amounting to RMB22.0 million secured in April 2015 which is expected to be completed by the second quarter of 2016, will be fully completed before the end of 2015.

Subsequent to the Track Record Period and up to 31 October 2015, we secured one new EPC project, two new equipment projects and one new construction project under the wastewater/drinking water treatment segment, with a total contract value of approximately RMB34.6 million. Please refer to the section headed “Business — Our Project Backlog” in this prospectus for details. A summary of these four new projects is set out as below:

Project name	Contract date	Contract value <i>RMB'000</i>	Estimated completion date
Shandong Rizhao Equipment Project (山東日照設備項目)	15 July 2015	10,079	Completed in September 2015
Xiqiao Equipment Project (西樵設備項目)	30 July 2015	16,094	Completed in October 2015
Xiqiao Construction Project (西樵安裝工程項目)	30 July 2015	1,589	December 2015
Nansha Project (南沙項目)	22 September 2015	6,856	March 2017
		<u>Total: 34,618</u>	

In terms of our project pipeline as at 31 October 2015, we have submitted seven tender proposals for three EPC projects and four equipment projects, with an aggregate full contract value of RMB190.6 million. Out of these seven tender proposals, we were in the process of finalising the terms and conditions of one wastewater EPC contract with an estimated value of RMB13.0 million with a brand new customer (whom was referred to us by one of our existing customers in the PRC) for building the wastewater treatment facilities to support its textile manufacturing plant in Vietnam and we expect the signing of this contract before the end of 2015. The remaining six tender proposals are still pending the release of the tender results, five of which are expected to have the results released by the end of 2015 and one is expected to have the results released by the second quarter of 2016. In this regard, approximately HK\$17.6 million of the net proceeds from the Listing will be used to fund the working capital of the projects in our pipeline.

Our Directors confirm that, save as disclosed, in particular, in the paragraph headed “Summary of Financial Information” and “Listing Expenses” above, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2015, being the date to which the latest audited financial statements of our Group were made up, and up to the date of this prospectus and there has been no event since 30 June 2015 which would materially affect the information shown in the Accountants’ Report.

DEFINITIONS

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

“Accountants’ Report”	the Accountants’ Report of our Group set out in Appendix I to this prospectus
“Articles” or “Articles of Association”	the articles of association of our Company adopted on 24 November 2015 and effective on the Listing Date, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning as defined in the GEM Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“close associate(s)”	has the meaning as defined in the GEM Listing Rules
“Companies Law”	The Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which came into effect on 3 March 2014, as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) which came into effect on 3 March 2014 as amended, supplemented or otherwise modified from time to time
“Company”	Great Water Holdings Limited (建禹集團控股有限公司), a company incorporated in the Cayman Islands on 25 March 2015 as an exempted company with limited liability under the Companies Law
“connected person(s)”	has the same meaning as defined in the GEM Listing Rules

DEFINITIONS

“Controlling Shareholder(s)”	has the same meaning as defined in the GEM Listing Rules and, in the context of our Company, means Mr. Xie, Mr. Song, Ms. Gong, Great Time, Perfect Wave, Oceanic Expert, Thinker Global, Topman Ventures and Waterman Global. Details of their shareholdings are set forth in the section headed “Relationship with Controlling Shareholders” in this prospectus and the section headed “Statutory and General Information — Further Information about Directors and Shareholders — Interest disclosable under the SFO and Substantial Shareholders” in Appendix V to this prospectus
“core connected person(s)”	has the same meaning as defined in the GEM Listing Rules
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 24 November 2015 entered into between each of our Controlling Shareholders and our Company (for ourselves and as trustee for each of our subsidiaries), pursuant to which each of our Controlling Shareholders agreed to provide our Company (for itself and as trustee for each of its subsidiaries) certain indemnities, further details of which are set out in the section headed “Statutory and General Information — Other Information — Indemnity” in Appendix V to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 24 November 2015 given by each of our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries) as set out in the section headed “Relationship with Controlling Shareholders — Non-competition Undertaking” in this prospectus
“Director(s)”	the director(s) of our Company
“E20”	Beijing Golden City Intelligence Technology Development Co., Ltd., an industry research consultant and an Independent Third Party
“E20 Report”	the industry report prepared by E20 which was commissioned by us in relation to, among others, the wastewater treatment engineering services industry in the PRC, as referred to in the section headed “Industry Overview” in this prospectus
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), as enacted by the NPC on 16 March 2007 and effective on 1 January 2008, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Euromonitor”	Euromonitor International Ltd., an industry research consultant and an Independent Third Party
“Euromonitor Report”	the industry report prepared by Euromonitor which was commissioned by us in relation to, among others, the wastewater treatment industry in the PRC, as referred to in the section headed “Industry Overview” in this prospectus
“Foreign Contractor Permit”	the foreign contractor permit required to be obtained by a foreign entity in order to carry out engineering, procurement and construction projects under the laws of Vietnam, details of which are set out in the section headed “Laws and Regulations — Vietnamese Laws and Regulations” in this prospectus
“GAIC”	廣州市工商行政管理局 (Guangzhou Administration for Industry and Commerce)
“GDP”	gross domestic product, the total market value of all the goods and services produced within the borders of a nation during a specified period of time
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended from time to time
“Great Time”	Great Time Ventures Limited (佳時創投有限公司), a company incorporated in the BVI with limited liability on 6 February 2015 and is indirectly wholly-owned by Mr. Song, who is a Controlling Shareholder
“Great Water Hong Kong”	Great Water EP Investment (China) Limited (建禹環保投資(中國)有限公司), a company incorporated in Hong Kong with limited liability on 10 March 2015 and is a direct wholly-owned subsidiary of our Company
“Group”	our Company and our subsidiaries or, where the context requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were our Company’s subsidiaries at the relevant time
“Guangzhou Great Water”	Guangzhou Great Water Environmental Protection Co., Ltd. (廣州中科建禹環保有限公司), formerly known as Guangzhou Great Water Treatment Technology Co., Ltd. (廣州中科建禹水處理技術有限公司), a company established in the PRC on 2 August 2001 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“HK” or “Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hongrun EP”	Guangzhou Hongrun Environmental Protection Technology Co., Ltd. (廣州宏潤環保技術有限公司), a company established in the PRC on 7 May 2015 and an indirect wholly-owned subsidiary of our Company
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of our Company and its connected persons (as defined under the GEM Listing Rules)
“JIEI”	Jiangsu (Yixing) Institute of Environmental Industry, an industry research consultant and an independent third party
“JIEI Report”	the industry report prepared by JIEI in relation to the soil remediation industry in the PRC, as referred to in the section headed “Industry Overview” in this prospectus
“Latest Practicable Date”	23 November 2015, being the latest practicable date prior to the publication of this prospectus for ascertaining certain information in this prospectus
“Lintao EP”	Guangzhou Lintao Environmental Protection Technology Co., Ltd. (廣州霖濤環保技術有限公司), a wholly foreign owned enterprise established in the PRC on 28 April 2015 and an indirect wholly-owned subsidiary of our Company
“Listing”	the proposed listing of the Shares on GEM by the Placing
“Listing Date”	the date on which dealings in the Shares first commence on GEM
“Listing Department”	the Listing Department of the Stock Exchange for GEM
“Memorandum”	the memorandum of association of our Company
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)

DEFINITIONS

“MOHURD”	the Ministry of Housing and Urban-Rural Development (中華人民共和國住房和城鄉建設部)
“Mr. Song”	Mr. SONG Xiao Xing (宋曉星), a non-executive Director and one of our Controlling Shareholders
“Mr. Xie”	Mr. XIE Yang (謝楊), our executive Director, chairman and chief executive officer of our Group and one of our Controlling Shareholders
“Ms. Gong”	Ms. GONG Lan Lan (龔嵐嵐), a non-executive Director and one of our Controlling Shareholders
“NDRC”	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
“Oceanic Expert”	Oceanic Expert Investments Limited, a company incorporated in the BVI with limited liability on 12 January 2015 and is indirectly wholly-owned by Mr. Xie, who is a Controlling Shareholder
“Perfect Wave”	Perfect Wave Holdings Limited (美濤控股有限公司), a company incorporated in the BVI with limited liability on 8 January 2015 and is directly wholly-owned by Mr. Xie, who is a Controlling Shareholder
“Placing”	the conditional placing by the Underwriters on behalf of our Company of the Placing Shares for cash at the Placing Price, as further described under the section headed “Structure and Conditions of the Placing” in this prospectus
“Placing Price”	the final placing price of HK\$0.96 per Placing Share (excluding brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
“Placing Shares”	75,000,000 new Shares being offered by our Company for subscription at the Placing Price under the Placing as described under the section headed “Structure and Conditions of the Placing” in this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus (unless otherwise indicated), excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Legal Advisers”	Zhong Lun Law Firm, the legal advisers to our Company as to PRC law

DEFINITIONS

“R&D”	research and development
“Reorganisation”	the corporate reorganisation arrangements undergone by our Group in preparation for the Listing, as set out in the section headed “History, Reorganisation and Group Structure — Our History, Development and Reorganisation — Reorganisation” in this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Shares
“Shenwan Hongyuan”, “Sole Sponsor”, “Sole Bookrunner” or “Sole Lead Manager”	Shenwan Hongyuan Capital (H.K.) Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor, the sole bookrunner and the sole lead manager of the Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning as defined in section 15 of the Companies Ordinance

DEFINITIONS

“Substantial Shareholder(s)”	has the same meaning as defined in the GEM Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Thinker Global”	The Thinker Global Limited, a company incorporated in the BVI with limited liability on 3 December 2014 and is directly wholly-owned by Ms. Gong, who is a Controlling Shareholder
“Topman Ventures”	Topman Ventures Limited (崇民創投有限公司), a company incorporated in the BVI with limited liability on 6 January 2015 and is directly wholly-owned by Mr. Song, who is a Controlling Shareholder
“Track Record Period”	the period comprising the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015
“Underwriters”	the Underwriters of the Placing named in the section headed “Underwriting — Underwriters” in this prospectus
“Underwriting Agreement”	the conditional underwriting agreement dated 30 November 2015 relating to the Placing entered into by our Company, the executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters, details of which are set out in the section headed “Underwriting” in this prospectus
“US” or “U.S.” or “USA”	the United States of America
“US\$” or “US dollars”	US dollars, the lawful currency of the US
“Vietnamese Legal Advisers”	S&B Law Company Limited, the legal advisers to our Company as to Vietnamese laws
“Vietnamese Project”	the project in which our Group acted as the EPC contractor to build a wastewater treatment facility to service the textile factory of Pacific Crystal Textiles Limited in Vietnam
“Vietnamese Subsidiary”	Trung Khoa Kien Vu Environmental Protection (Vietnam) Company Limited, a company incorporated in Vietnam on 22 August 2013 and an indirect wholly-owned subsidiary of our Company
“VND”	Vietnamese dollars, the lawful currency of Vietnam

DEFINITIONS

“Waterman Global”	Waterman Global Limited, a company incorporated in the BVI with limited liability on 2 February 2015 and is indirectly wholly-owned by Ms. Gong, who is a Controlling Shareholder
“m ³ ”	cubic metre
“p.a.”	per annum
“tons”	metric tons
“%”	per cent.

Unless expressly stated or the context otherwise requires, all data in this prospectus are as of the Latest Practicable Date.

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC Government authorities or the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

GLOSSARY

This glossary contains explanations of certain terms used in this prospectus in connection with the business of our Group. The terms and their meanings may not correspond to the standard industry meanings or usage of these terms.

“aerobic”	an environment in which oxygen is present or a process which occurs only in the presence of oxygen
“anaerobic”	an environment in which oxygen is absent or a process which occurs only in the absence of oxygen
“BOT”	build-operate-transfer, a project model in which the proprietor grants to a contracted enterprise the rights to undertake the financing, design, construction, operations and maintenance of certain facilities by concession agreement, which enterprise can charge a fee during the concession period to cover its costs of investment, operations and maintenance as well as obtain reasonable returns, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor
“contract value”	value of the contract(s), net of applicable taxes
“COD”	Chemical Oxygen Demand, which is commonly used to indirectly measure the amount of organic compounds in water. Most applications of COD determine the amount of organic pollutants found in surface water (e.g. lakes and rivers), making COD a useful measure of water quality
“EPC” or “EPC projects”	Engineering, Procurement and Construction, a project format in which an enterprise is commissioned by a customer to act as a general contractor to take care of the overall design, procure and construct water or wastewater treatment facilities pursuant to the contract and be responsible for the quality, safety, time control and pricing of the project
“equipment projects”	a project format in which an enterprise is engaged to, based on the engineering design provided by BOT operators (or their sub-contractors), provide technical advice, prepare a tailor-made equipment proposal and procure necessary materials, equipment and machinery for the treatment facilities
“membrane”	a selective barrier that allows the passage of certain constituents and retains other constituents found in the liquid
“O&M”	Operation and Maintenance, a project format in which an enterprise is retained to operate and maintain water or wastewater treatment facilities for a certain period for a certain operation and maintenance fee

GLOSSARY

“pH”	a measure of the acidity or alkalinity of a solution, numerically equal to 7 for neutral solutions, increasing with increasing alkalinity and decreasing with increasing acidity. The pH scale commonly in use ranges from 0 to 14
“wastewater”	water that has been used for domestic or industrial purposes which may contain organic and inorganic pollutants, bacteria, dissolved and/or suspended solids
“wastewater treatment”	use of physical, chemical and biological processes to remove pollutants from wastewater before discharging it into a water body or reclaiming it for re-use

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS MAY NOT MATERIALISE

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or those include the words “believe”, “expect”, “aim”, “intend”, “project”, “will”, “may”, “plan”, “consider”, “anticipate”, “seek”, “should”, “would” or similar expressions or the negative thereof, are forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- future development, trends and conditions in the industry and markets in which we operate;
- expansion, consolidation or other trends in the industry in which we operate;
- regulations and restrictions;
- general political and economic conditions in the PRC as well as the global market;
- macroeconomic measures taken by the Hong Kong and/or the PRC government(s) to manage economic growth;
- our business prospects;
- the competition for our business activities and the actions and development of our competitors;
- financial condition and performance of our Group;
- our dividend policy;
- changes to our expansion plans and use of capital expenditures; and
- realisation of the benefits of our business plan and strategies.

FORWARD-LOOKING STATEMENTS

We believe that the sources of information and assumptions contained in such forward-looking statements are appropriate sources for such statements and have taken reasonable care in extracting and reproducing such information and assumptions. We have no reason to believe that information and assumptions contained in such forward-looking statements are fake or misleading or that any fact has been omitted that would render such forward-looking statements fake or misleading in any material respect.

The information and assumptions contained in the forward-looking statements have not been independently verified by us, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any other party involved in the Placing or their respective directors, officers, employees, advisers or agents and no representation is given as to the accuracy or completeness of such information or assumptions on which the forward-looking statements are made. Additional factors that could cause actual performance or achievements of our Group to differ materially include, but are not limited to those discussed under the section headed “Risk Factors” and elsewhere in this prospectus.

These forward-looking statements are based on current plans and estimates, and apply only as of the date they are made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Placing Shares. You should pay particular attention to the fact that the legal and regulatory environment in Hong Kong may differ in some respects from that which prevails in other countries. The business, financial condition or results of operations of our Group could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our historical growth rate, revenue and profit margin may not be an indication of our future growth rate, revenue and profit margin

We achieved strong growth in revenue and profit during the Track Record Period. Our total revenue increased by 94.6% from RMB62.8 million for the year ended 31 December 2013 to RMB122.2 million for the year ended 31 December 2014, whereas our net profit increased by 176.8% from RMB8.2 million for the year ended 31 December 2013 to RMB22.7 million for the year ended 31 December 2014.

Our gross profit increased by RMB20.0 million or 127.4%, from RMB15.7 million for the year ended 31 December 2013 to RMB35.7 million for the year ended 31 December 2014. Our gross profit margin increased from 25.0% in 2013 to 29.2% in 2014. The overall improvement in our gross profit margin in 2014 was mainly because a higher proportion of revenue was derived from the equipment projects and O&M/technical advisory projects which yielded higher gross profit margin than EPC projects. Specifically, gross profit derived from wastewater treatment equipment projects increased from nil in 2013 to RMB22.1 million in 2014, and the corresponding gross profit margin was 32.3% in 2014, which was higher than that of wastewater/drinking water EPC projects for the same year. Meanwhile, the increase in gross profit and gross profit margin for O&M/technical advisory projects was primarily due to the two advisory contracts we obtained in 2014, with aggregate contract value of RMB5.7 million, from a subsidiary of a state-owned environment protection company in Hubei Province in January 2014 to act as its technical consultant to provide engineering proposals in relation to installation of boilers and dust collection systems for two of its customers (one being a thermal power plant and the other one was a steel mill, both of which are located in Guangdong province). These two projects were mandated to us and commanded a relatively high margin because this customer was under a tight timetable to complete the project work and therefore required a technical consultant in Guangdong Province who not only was able to provide the engineering proposals within a tight schedule, but also had the local knowledge as to the capabilities of different sub-contractors whom should be appointed for the work. For details, please refer to the section headed “Financial Information — Period-to-Period Comparison of Results of Operations” in this prospectus.

Even though we are committed to continuing the expansion of our business and maximising the return for our Shareholders, there is no assurance that we can maintain the growth rate, revenue and profit margin similar to what we experienced during the Track Record Period. Our continued growth and profit margin will depend on a number of factors, many of which are beyond our control, including

RISK FACTORS

global and local economic conditions, changes in policies and regulatory requirements in the areas where we conduct business, the level of competition in the wastewater treatment engineering service industry, market demand or other risks described in this section.

Our revenue is mainly derived from our wastewater treatment engineering services (in the form of EPC and equipment projects) which are not recurring in nature and a failure to continue to obtain new projects would affect our operations and financial results

During the Track Record Period, most of our revenue was derived from our wastewater treatment engineering services (in form of EPC and equipment projects), which in aggregate accounted for 67.1%, 76.9% and 80.2% respectively of our total revenue. Our engagements with customers for our EPC and equipment projects were on a project basis and the duration of our EPC projects and equipment projects usually lasted, on average, 18 months and 16 months, respectively. As such, most of our revenue was not recurring in nature. After completion of the projects, our customers are not obliged to engage us again in their subsequent projects. We have to undergo a competitive tendering/negotiation process to secure new projects. We cannot assure you that we could maintain our business relationships with existing customers, nor that our existing customers will award new projects to us, nor that we can secure new projects of similar or larger value on a continuous basis. In the event that we fail to do so, there may be a significant decrease in our revenue, which could in turn materially and adversely affect our business operations and financial results.

Significant time gaps sometimes exist between the dates of revenue recognition and invoice settlement by our customers and it is possible that our customers may delay or default in progress payment, or fail to settle the trade receivables on time

We are exposed to customer credit risks due to the nature of our business. Normally during the course of a project, our customer would allow us to bill them upon achieving certain project milestones. Therefore, we are often required to incur expenditure to carry out the contract work before we can bill our customers. Although our usual credit term was 30 days, during the Track Record Period, we sometimes extended the invoice due date to the final acceptance of the entire project by customers for certain equipment projects, which resulted in time gaps ranging from approximately 80 days to 400 days between the dates of revenue recognition and invoice settlement. For further details, please see the paragraphs headed “Business — Our Pricing Policy and Credit Policy” and “Financial Information — Net Current Assets — Trade and Bills Receivables” in this prospectus.

As a result of the significant time gaps between the dates of revenue recognition and invoice settlement by our customers, we always carry a substantial balance in our trade receivables as compared to the revenue amount. As at 31 December 2013 and 2014, and 30 June 2015, our trade and bill receivables amounted to RMB24.1 million, RMB70.6 million and RMB75.6 million respectively. If our customers delay or default in progress payment, or fail to settle the trade receivables on time, our profitability, cashflow, and financial conditions may be adversely affected.

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Our customers may make claims against us and/or terminate our services in whole or in part prematurely should we breach the terms of our agreements with them or fail to implement projects which fully satisfy their requirements and expectations

Our wastewater treatment engineering business is subject to the terms of the agreement with our customer. In the event of any failure to complete the construction of relevant facilities according to the specifications and schedule as required under the EPC contract, any failure to deliver the necessary equipment and machinery according to the specifications and schedule as stipulated under the equipment project contract or any failure to provide services as prescribed in the service contract, our customers may make claims against us or terminate the relevant contracts with or without compensation.

In the event that we suffer claims or if our services are terminated by our customers due to our breach of the relevant contracts, our business, financial condition, results of operations and our reputation could be materially and adversely affected.

Failure to accurately estimate the overall risks or costs of our contracts, or the time needed to complete the projects may lead to cost overruns, schedule delays, lower profitability or even losses on projects under such contracts

We generate a substantial portion of our revenue from contracts with a pre-determined contract amount for our EPC and equipment projects. The terms of these contracts require us to complete a project or successfully procure the required equipment for a pre-agreed price. Therefore, if we fail to price the projects accurately, we may be exposed to the risk of cost overruns upon completion. Our estimates of the costs for completing a project are subject to a number of assumptions, including the future economic conditions, cost and availability of labour and raw materials, sub-contractor(s)' performance, and technical standards to be applied to the project. However, if any of our cost estimates for a contract is inaccurate, or we do not execute the contract within our estimates, the project may not be as profitable as we expected. Meanwhile, delays caused by adverse weather conditions, technical issues, as well as other variations and risks inherent in the performance of contracts, may increase the actual overall risks and costs to substantially differ from our original estimates.

In addition, we are sometimes required to incur costs in connection with modifications to project work that may not be approved by the customer as to scope and/or price, or to incur unanticipated costs, including costs for unexpected delays, errors in our designs, or contract termination, that we may not be able to recover. Moreover, engagement for unanticipated works in one project may cause delays in other project commitments and may have a negative impact on our ability to meet the specified deadlines of other projects thereby adversely affecting our overall financial performance.

We cannot guarantee that we will not encounter cost overruns or delays in our current and future projects. In the event that such cost overruns or delays occur, the project costs may exceed the original budget amount or we could be required to pay liquidated damages in accordance with the terms of the contract. As a result, we may suffer loss on such project.

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We are dependent on the performance of our sub-contractors

For our EPC projects, we assume the role of a main contractor in charge of the overall management of the project. We typically retain sub-contractors to carry out civil construction and equipment installation works for our EPC projects and subject to the complexity of the projects and our internal resources availability, we may also sub-contract a portion of procurement work to a third party for sourcing parts, equipment and machinery. For our soil remediation projects, we also engage sub-contractors for solid waste collection, solid waste incineration and transportation services. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, our sub-contracting costs constituted 47.5%, 18.6% and 20.0% of our total cost of sales, respectively.

As our Group does not enter into any long-term contract with our sub-contractor(s), we cannot be certain that they will continue to provide services to our Group at prices acceptable to us. In the event that any sub-contractor is unable to provide the required services to our Group or we are unable to find suitable alternative sub-contractor(s) on similar or more favourable terms, or if the costs for them to provide those required services increase substantially, our business, results of operations, profitability and liquidity may be adversely affected.

In addition, there is no assurance that we would be able to ensure the performance of our sub-contractor(s) to our satisfaction. In the event that any of our sub-contractors fails to provide its required works and meet our requirements, we may experience delays in project completion, or quality issues concerning the works done. In such case, we may have to incur significant time and costs to carry out remedial actions, which could harm our reputation and potentially expose us to litigation and damage claims and in turn adversely affect the profitability and reputation of our business.

Projected revenue amounts reported in our backlog could fail to result in actual revenue or translate into profits

We have provided the project backlog amounts, which represent the estimated total contract value of our work that remains to be completed in relation to our projects on hand. As at 31 October 2015, save for the O&M projects, the aggregate value of our project backlog was approximately RMB58.7 million, which was related to (i) four EPC projects, three equipment projects and one construction project under wastewater/drinking water treatment segment; and (ii) two technical advisory projects. Any material modifications, terminations or suspension of our contracts by our customers, especially with regard to any one or more sizeable contracts, would have a material effect on our backlog and our business and results of operations. These projects may also remain in the backlog for an extended period of time beyond the anticipated initial period due to various factors beyond our control. Also, there can be no assurance that we can perform our contracts in full in accordance with their terms without any delay or defect due to reasons beyond our control. Additionally, we cannot guarantee that the revenue projected in our EPC and equipment contracts on hand will be realised in a timely fashion, or at all, or that, even if the revenue is realised, that it will result in profits. As a result, you should not take the project backlog amounts or the value of our EPC and equipment projects in the past as an indication of our revenue or profitability in the future.

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Our expansion into new environmental protection businesses and undertaking of projects overseas may impose new challenges on us, and we may lack the necessary experience to deal with these new challenges

We have established ourselves as a dedicated wastewater treatment engineering services provider in the PRC. Recently, we also expanded our business into other environmental protection areas such as flue gas treatment project, and soil remediation project. Furthermore, we established our Vietnamese Subsidiary in August 2013 to take on the Vietnamese Project, for a fellow subsidiary of our existing customer, to build a wastewater treatment plant to service its textile factory in Vietnam. We may continue to undertake projects in Vietnam if so requested or referred by our customers in the PRC. However, there is no assurance that we will be able to sustain a profitable operation in these new business areas. If we fail to meet the challenges posed by these new business areas, our business, financial condition and results of operations may be materially and adversely affected.

We may fail to keep up with the latest development of wastewater treatment technologies

Due to the increasingly stringent effluent standards imposed by the relevant government authorities and the expanding diversity of pollutants output that needs to be processed, we are faced with the growing task of providing more efficient and effective treatment solutions to our customers. Therefore, we have to devote sufficient resources to keep ourselves abreast of and to adapt the latest development of wastewater treatment technologies, in order to maintain our competitiveness in the market.

However, there is no assurance that we can always successfully acquire the knowledge of newly developed technology, and are able to adapt such technology to provide effective treatment solutions to customers in a timely manner. If our competitor manages to take the lead in commercialising the latest treatment technology before us, we may lose our competitiveness in the market. As a result, our market share, and financial performance may be adversely affected.

If we fail to obtain or maintain the qualifications and permits required for our operations, our business, financial condition and results of operations may be materially and adversely affected

It is a pre-requisite for us to obtain certain qualifications and permits from various governmental authorities and industry association in order to carry out our business in the PRC. Details of the qualifications and permits that we are required to maintain are set out in the section headed “Laws and Regulations” of this prospectus. Some of these qualifications and permits are subject to periodic review and renewal by the relevant PRC Government authorities and the standards of compliance required in relation thereto may, from time to time, be subject to changes. Any change in the existing policies by the relevant government authorities which result in the imposition of more stringent requirements may result in our failure to obtain or maintain such qualifications and permit.

There is no assurance that all these required qualifications and permits can be obtained in a timely manner or at all. In the event that we fail to obtain or maintain such qualifications and permits or if the approvals or renewals are granted subject to onerous conditions, we may be subject to fines and other penalties which could be material and our ability to carry out our business in the PRC or elsewhere could be limited. As a result, our business, financial condition and results of operations could be materially and adversely affected.

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Any failure to maintain an effective quality control system would adversely affect our reputation, results of operations and financial condition

The quality and performance of the components, materials (e.g. filter and pipelines system), equipment and machinery used for the construction of our wastewater and drinking water treatment facilities are critical to the quality of the water discharged from such treatment facilities. In this regard, we rely significantly on our quality control system to maintain the consistent quality of such components, materials, equipment and machinery. For details of our Group's quality control measures, please refer to the section headed "Business — Quality Assurance" of this prospectus. The effectiveness of our quality control depends on a number of factors, including the design and the proper implementation of our quality control system. There can be no assurance that our quality control system will always be effective. Any significant failure or deterioration of our quality control system could expose us to claims by our customers and may have a material adverse effect on our reputation, results of operations and financial condition.

Inaccurate estimates in applying a percentage-of-completion method for our EPC projects and construction projects comprising flue gas and soil remediation projects, may result in a reduction of previously reported profits and have a significant impact on our period-to-period results of operations

Revenue for EPC projects and construction projects is recognised based on a percentage-of-completion method, measured by the proportion of costs incurred to estimated total costs per relevant project. The estimated total costs (including the procurement cost of materials, costs of sub-contracting, direct labour and direct overheads) are derived from management estimation based on the costs as agreed with the relevant suppliers and sub-contractors, as well as the budgeted direct labour cost and overheads.

The timing of our recognition of revenue may differ materially from the timing of our actual receipt of contract payments. The timing of our recognition of revenue and the amount of revenue recognised are affected by our ability to reliably measure the percentage of completion, total estimated costs and actual costs incurred. Inaccuracies or flaws in our measurements for any given project or in our estimation methodology as a whole could have a material and adverse effect on the timing of our recognition of revenue and the amount of revenue recognised. Where our expectation related to revenue recognition is different from our previous estimation, the differences will be charged to our profit or loss account in the period when such estimate has been changed. To the extent that changes in such estimate result in a reduction of previously reported profits for a project, we must recognise a charge against current earnings in the period when such estimate is changed. These charges may significantly reduce our earnings, depending on the size of the adjustment. In addition, because many of these contracts are completed over a period of several months or years, the timing of our recognition of the related revenue may adversely affect our results of operations.

Our inability to maintain our competitiveness would adversely affect our financial performance

Competition in the market for wastewater treatment engineering services is intense. We expect to face more intense competition from existing competitors and new market entrants in the future. We compete with a variety of companies, some of which may have longer operating histories, more

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established reputations for the type of project, better technical expertise, better customer service, better pricing, stronger relationships with municipal governments and industrial companies, greater familiarity with local market conditions, larger clientele, larger teams of professional staff and greater financial, technical, marketing and other resources and may be in a better position to develop and expand their range of services and market share. Our competitors may, from time to time, engage in aggressive pricing to gain market share and we may be under pressure to offer comparable pricing to maintain our competitiveness. In addition, companies which currently do not compete directly with us may expand their business to offer competing wastewater treatment engineering services and we cannot give any assurance that they will not compete with us in the future. There is no assurance that we will be able to effectively compete with our competitors in winning such projects in the future. If we fail to compete successfully against existing or future competitors, our business, financial condition and operating results will be materially and adversely affected.

We are dependent on our key management team and technical personnel

We attribute our success to the leadership and contribution of our senior management team. We not only rely on their expertise and experience but also depend on their relationships with customers and suppliers. Our continued success is therefore dependent to a large extent on our ability to retain the services of these key management personnel. The loss of their services without timely and suitable replacements will materially and adversely affect our operations and hence, our revenue and profits.

Owing to the specialised nature of our work, there is a limited supply of adequately skilled engineers and technical personnel. Our continued success also depends largely on our ability to attract and retain skilled technical personnel. Their qualifications, project experience and technical know-how are essential to our success as a provider of effective designs and customised solutions to customers with various needs and requirements. If we are unable to attract and retain a sufficient number of suitably skilled and qualified personnel, our business could be materially and adversely affected.

Any failure to maintain effective anti-corruption measures for our projects would harm our reputation and have a material and adverse effect on our business, financial condition or results of operations

Since 2014, we have participated as equipment contractor in BOT projects relating to the building of municipal wastewater treatment facilities. We are subject to anti-corruption laws of the PRC which generally prohibit companies and intermediaries from making improper payments to public officials and industry players for the purpose of obtaining or retaining contracts and/or other benefits. We are also subject to anti-corruption clauses stipulated in the Bidding Law of the PRC while obtaining our contracts through public bidding. Violation of the aforesaid clauses may lead to void or invalidation of the bidding result. We have internal control measures in place to monitor our compliance with anti-corruption laws, regulations and policies. For details, please refer to the section headed “Business — Our wastewater treatment engineering services — anti-corruption measures for our projects”. However, we cannot assure you that such internal control measures will always identify and prevent acts of corruption committed by our employees and other parties with whom we have business relationships. If we, our employees or our affiliates are found to have engaged in such acts of corruption while conducting business, we may be subject to penalties such as paying fine, returning illegal gains,

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suspension from participating in public biddings, and/or revoking of our licenses and permits. Any violation of the anti-corruption laws may also adversely damage our reputation, which in turn will have a material and adverse impact on our business, financial condition or results of operations.

Our tax burden may increase as a result of the changes in tax policies, including the abolition of the preferential tax treatment

Under the PRC EIT Law, enterprises in the PRC are generally subject to a uniform 25% enterprise income tax rate on their worldwide income. Guangzhou Great Water, being our operating subsidiary in the PRC, was subject to 15% enterprise income tax rate during the Track Record Period as a result of its accreditation as a High and New Technology Enterprise by the Guangdong Provincial Science and Technology Department and relevant authorities in the PRC. Our current High and New Technology Enterprises certificate will expire in November 2015 and we have submitted the renewal application in July 2015, which was pending the approval by competent authority as at the Latest Practicable Date.

There is no assurance that the current policies in the PRC with respect to the preferential tax treatment we currently enjoy will not be unfavourably changed or discontinued, or that the approval for such preferential tax treatment will be granted to us in a timely manner. In the event that the termination or expiration of our preferential tax treatment, or the imposition of additional taxes to us, our business, financial conditions and results of operations could be adversely affected.

We may be unable to adequately safeguard our intellectual property or face claims that may be costly to resolve or limit our ability to use such intellectual property in the future

Our business is reliant on a combination of patents and proprietary technical know-how described in the section headed “Business — Intellectual Properties” of this prospectus. Our intellectual property has enabled us to improve the efficiency of the engineering services we offer, and assisted us in securing new EPC projects and equipment projects. However, we cannot guarantee that the measures we have taken to protect our intellectual property will be sufficient to prevent any misappropriation of our intellectual property, or that our competitors will not independently develop, or obtain through licensing, alternative technologies that are substantially equivalent or superior to ours. Enforcement of our intellectual property rights could be costly and we may not be able to immediately detect the unauthorised use of our intellectual property and take necessary steps to enforce our rights in such property.

Our technical know-how is the result of our research and development efforts and we believe it to be proprietary and unique. However, we are unable to assure you that third parties will not assert infringement claims against us in respect of our proprietary technical know-how or that such claims will not be successful. It may be difficult for us to establish or protect our proprietary technical know-how against such third parties and we could incur substantial costs and the diversion of management resources in defending any claims relating to proprietary rights. If any party succeeds in asserting a claim against us relating to the disputed proprietary technical know-how, we may need to obtain licences to continue to use the same or be legally required to expend significant resources to redevelop our technical know-how so that it does not infringe upon third-parties’ rights. There is no assurance that we will be able to obtain these licences on commercially reasonable terms, if at all. Any failure to obtain the necessary licences or other rights could cause our business results to suffer.

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Our Vietnamese Subsidiary does not own any intellectual properties. All software currently used by us is legally licensed. We are now under the process of trademark registration in Vietnam. An application for trademark registration No. 4-2015-09171 (the “**Trademark Application**”) was filed to the National Office of Intellectual Property on 17 April 2015. Under the Vietnamese law, the Trademark Application will not be considered as a certificate of Intellectual Property Right until the National Office of intellectual Property grants the official certificate. According to the Vietnamese law on Intellectual Property, we can only receive official certificate after 17 April 2016 if the trademark we applied satisfies all the requirements for trademark registration.

Our insurance coverage may not fully cover the risks related to our business and operations

Under the relevant PRC law and regulations and Vietnamese law and regulations, we are not required to maintain, and we did not maintain any third party liability insurance during the Track Record Period to cover claims in respect of personal injury or environmental damage arising from accidents relating to our operations, nor any insurance against product liabilities or our liabilities under EPC projects, equipment projects or any services that we provide during the ordinary course of business. Nevertheless, we have arranged third party liability insurance to cover losses or claims arising from accidents relating to our existing ongoing EPC and equipment projects as at the Latest Practicable Date. On the other hand, certain types of risks, such as liabilities arising from events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorists attacks, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. In the event that an uninsured liability arises, or that our insurance coverage is not sufficient to cover the losses or claims arising out of any accident, we may suffer losses which may adversely affect our financial position. There can be no assurance that all potential losses and claims, regardless of the cause, would be sufficiently covered and/or recoverable from the insurers.

Natural disasters, epidemics, acts of war or terrorism, inclement weather or other factors beyond our control may cause damage, loss or disruption to our business

Natural disasters, epidemics, acts of war or terrorism, inclement weather or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, such as Severe Acute Respiratory Syndrome (“**SARS**”), avian or H1N1 influenza, or potential wars or terrorist attacks. Serious natural disasters may result in tremendous loss of lives and injury and destruction of assets and disrupt our business and operations. Severe communicable disease outbreaks could cause the shutdown of our worksites and quarantine of our staff. Acts of war or terrorism may also injure our employees, cause loss of lives, damage our facilities, disrupt our sales network and destroy our markets. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our sales, costs, overall financial condition and results of operations.

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We are exposed to foreign exchange rate fluctuations

We conduct substantially all of our operations in the PRC and our principal functional currency is Renminbi. Nevertheless, we had undertaken the Vietnamese Project of contract value of RMB27.9 million during the Track Record Period. In the Vietnamese Project, we transacted in VND for the construction and installation work with a local sub-contractor in Vietnam, whilst the Vietnamese Subsidiary has settled the purchase price for the purchase of equipment and machinery delivered to Vietnam in US\$. Currently, we are also in the process of finalising the terms and conditions of another EPC project with an estimated contract value of RMB13.0 million in Vietnam with a brand new customer and may transact our business in VND and US\$ in the future. The value of RMB against VND and US\$ fluctuates and is affected by, among other things, changes in the political and economic conditions in the PRC and Vietnam. During the third quarter of 2015, RMB had weakened against VND and USD as induced by adjustment of the RMB central parity system by The People's Bank of China in August 2015. Specifically, for illustrative purposes, the exchange rate of RMB against VND decreased from RMB1.00 to VND3,565 as at 30 June 2015 to RMB1.00 to VND3,535.83 as at 30 September 2015, whilst the exchange rate of RMB against USD decreased from RMB6.2073 to US\$1.00 to RMB6.3613 to US\$1.00 as at 30 September 2015. Fluctuations in exchange rates may adversely affect the value of our assets and increase our costs or liabilities or lead to a decline in revenue. Our business, financial condition and results of operations may be adversely and materially affected.

RISKS RELATING TO THE WASTEWATER TREATMENT INDUSTRY

The wastewater treatment industry is subject to a wide variety of environmental regulations and government policies, and any change in these regulations could harm our business

We are engaged in an industry where regulatory standards play a critical role in influencing the demand for our services. We have benefited in the past from the increasing awareness of environmental protection and the heightened wastewater treatment standards in the PRC and the recent PRC economic stimulus plan to increase government spending on infrastructure, including wastewater treatment facilities. For example, the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) amended in 2014 requires entities which cause environmental pollution and other public hazards to adopt effective measures to prevent and control the pollution and harm done to the environment, details of which are set out in the section headed “Laws and Regulations — Laws and Regulations on Project Operation — Environmental Protection” in this prospectus. Further, according to the Action Plan for Water Pollution Prevention and Control (《水污染防治行動計劃》, or 《水十條》) promulgated and implemented in 2015, factories in a number of targeted industrial areas should complete the construction of centralised wastewater treatment facilities before end of 2017, details of which are set out in the section headed “Industry Overview — Overview of the Wastewater Treatment Industry in the PRC — Wastewater Treatment Engineering Services Industry in the PRC” in this prospectus. However, there can be no assurance that we will continue to benefit from these PRC standards, economic stimulus plan, regulations and government policies in the future if there is any change, suspension or withdrawal of such regulations and government policies in future. Moreover, you should not regard the PRC government's intentions or announcements as an indication of the future prospects of our industry or our future performance. Any changes in legislative, regulatory or industrial requirements and government policies in places where we operate in and outside the PRC may render certain of our wastewater treatment engineering services redundant or obsolete. Acceptance of new wastewater treatment

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engineering services may also be affected by the adoption of new government regulations requiring stricter standards. Our ability to anticipate changes in regulatory standards and government policies and to develop and introduce water and wastewater treatment processes to keep up with such new regulatory standards and government policies will be significant factors in our ability to grow and to remain competitive.

If the treatment facilities constructed under our EPC projects or the equipment procured by us fail to comply with these standards, laws and regulations, our customers may be exposed to penalties or fines from the regulatory authorities and we may be subject to claims, litigation and legal proceedings for breach of customers' requirements and their technical specifications. Such events could materially and adversely affect our business, financial condition and results of operations.

Furthermore, there can be no assurance that the regulatory requirements for operating in the wastewater treatment engineering industry (including without limitation technological requirements, capital base and qualifications) will not be changed in the future. If there is any such change to the regulatory requirements, our Group may incur additional cost in complying with the new requirements which may adversely affect our business, results of operation and financial condition.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Uncertainties with respect to the PRC legal system could have an adverse effect on our business and operations

Our business is principally conducted, and our operations are principally located, in the PRC. Our business in the PRC is subject to PRC laws and regulations applicable to foreign investment in the PRC. The PRC legal system is a civil law system based on written statutes. Unlike in the common law system, prior cases have limited precedential value in deciding subsequent cases in the civil law legal system. Additionally, PRC written statutes are often principle oriented and require detailed interpretations by the enforcement bodies for their application and enforcement. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and the overall economic order of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organisation and governance, commercial transactions, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have an adverse effect on our business and operations. Additionally, given the involvement of different enforcement bodies of the relevant rules and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of PRC laws and regulations involve significant uncertainties under the current legal environment.

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Changes in economic, political, legal and social developments and conditions in the PRC and policies adopted by the PRC government may adversely affect our business results of operation and financial condition

All of our operating assets are located in the PRC (except the operating assets in connection with our project in Vietnam) and 100%, 91.2% and 94.6% of our total revenue was derived from our business activities in the PRC for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015. Our business, results of operation and financial condition are subject, to a significant degree, to economic, political, legal and social developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange. The PRC economy has traditionally been centrally planned. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. However, there is no assurance that the PRC government will continue to pursue economic reforms. The PRC government exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. Also, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. In addition, while the PRC's economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. A significant slowdown in the PRC economy or a continuation of the general economic slowdown and any tightening of liquidity will harm our ability to start or invest in new projects or obtain new project or equipment orders, slow our growth and thus have a material adverse effect on our business, financial condition and results of operations. Our business, results of operation and financial condition may be adversely affected by the PRC government's political, economic and social policies, tax regulations or policies, and regulations affecting the food manufacturing industry.

Our Company is a holding company and our ability to pay dividends is dependent upon the earnings of, and distributions by, our subsidiary in the PRC

Our Company is a holding company incorporated under the laws of the Cayman Islands with limited liability. Substantially all of our business operations are conducted through Guangzhou Great Water, our principal operating subsidiary in the PRC. Our Company's ability to pay dividends to our Shareholders is dependent upon the earnings of Guangzhou Great Water in the PRC and their distribution of funds to our Company, primarily in the form of dividends. The ability of Guangzhou Great Water to make distributions to our Company depends upon, among other things, its distributable earnings. Under the PRC laws, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and Guangzhou Great Water is also required to set aside part of their after-tax profits to fund certain reserve funds that are not distributable as cash dividends. Other factors such as cash flow conditions, restrictions on distributions contained in Guangzhou Great Water's articles of association, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect the ability of Guangzhou Great Water to make

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distributions to our Company. These restrictions could reduce the amount of distributions that our Company receives from Guangzhou Great Water, which in turn would restrict our ability to pay dividends on our Shares.

We may be deemed as a PRC tax resident under the PRC EIT Law and be subject to the PRC taxation on our worldwide income

Under the EIT Law, enterprises established under the laws of jurisdictions other than the PRC may nevertheless be considered as PRC tax resident enterprises for tax purposes if these enterprises have their “de facto management body” within the PRC. Under the supplementary rules for the EIT Law, the term “de facto management body” is defined as a body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. Since a majority of the members of our management team continued to be located in the PRC after the effective date of the EIT Law and we expect them to continue to be located in the PRC for the foreseeable future, we may be considered a PRC resident enterprise by the PRC tax authorities and therefore be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. If we are considered by the PRC tax authorities as a PRC tax resident enterprise under the PRC tax regime, our business, financial condition and results of operations may be adversely affected.

Dividends from Guangzhou Great Water and dividends on our Shares and gains on the sales of our Shares may be subject to PRC withholding taxes

The EIT Law and its implementation rules, which provided for the levying of withholding tax on PRC-sourced income, are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to identification of PRC-sourced income. Please refer to the section headed “Laws and Regulations — Other Laws and Regulations Relevant to our Group in PRC — Taxation” in this prospectus for details. If we were considered to be a PRC “resident enterprise” under the EIT Law, it is unclear whether the dividends we pay with respect to the Shares, or the gain our foreign Shareholders (excluding individual natural persons) may realise from the sale of the Shares, may be treated as income derived from sources within the PRC and be subject to PRC income tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if they are required to pay PRC income tax on the transfer of the Shares, the value of their investment in the Shares may be materially and adversely affected.

The strengthened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our acquisition, disposal or restructuring strategy, our financial performance, or the value of your investment in us

Through promulgating and implementing the Notice on Strengthening the Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓企業所得稅管理的通知》) (“**Circular 698**”) in December 2009 and subsequent issuance of the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公

告》) (“**Circular 7**”) in February 2015, the PRC tax authorities have strengthened their scrutiny over the indirect transfer of assets (including equity interests and immovable properties) of a PRC resident enterprise (the “**PRC Taxable Assets**”) by a non-PRC resident enterprise. Circular 7 specifies that when

RISK FACTORS

a non-PRC resident enterprise transfers PRC Taxable Assets indirectly by disposing of its equity interests in an offshore enterprise directly or indirectly holding such PRC Taxable Assets, the PRC tax authorities may disregard the existence of such offshore enterprise, and deem the transaction as a direct transfer of PRC Taxable Assets and to be subject to the relevant PRC enterprise income tax if the relevant transfer is considered to have been conducted for the purpose of avoiding PRC enterprise income tax and without any reasonable commercial purpose. For details of Circular 698 and Circular 7 and our compliance therewith, please refer to paragraph headed “Laws and Regulations — PRC Regulatory Requirements for the Reorganisation — Compliance with Circular 698 and Circular 7” in this prospectus.

Our PRC Legal Advisers are of the opinion that (i) our Reorganisation was not subject to the relevant PRC enterprise income tax as stipulated under Circular 698 and Circular 7; and (ii) the dealing in our Shares by our Shareholders which are non-PRC resident enterprises in the open market such as the Stock Exchange will not be subject to the PRC enterprise income tax under Circular 7. However, since Circular 7 was only issued recently and its detailed implementation is not entirely clear, it is uncertain whether the exemptions contained therein will be applicable to (i) any future transfer of our Shares by non-PRC resident investors off the open market; and (ii) any future acquisition, disposal or restructuring by our Group outside of the PRC involving indirect transfer of PRC Taxable Assets, or whether the PRC tax authorities will reclassify the aforesaid transfer by applying Circular 7 and/or Circular 698. In the event the PRC tax authorities determine that Circular 698 or Circular 7 is applicable to non-PRC resident investors who acquire or dispose of our Shares outside of the open market or through other off-market arrangements, whilst such transactions are deemed by the PRC tax authorities to be without any reasonable commercial purpose, such investors will be subject to the tax exposure and reporting obligations in the PRC as stipulated under Circular 698 and Circular 7. Moreover, in the event any future transaction conducted by us outside of the PRC involving PRC Taxable Assets is subject to the Circular 698 and Circular 7, our Group shall be subject to additional PRC tax reporting obligations and/or tax liabilities, which may have a negative impact on our financial performance, as well as the value of your investment in us.

Failure by the Shareholders or beneficial owners who are PRC domestic residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC domestic residents Shareholders may prevent us from distributing profits and could expose us and our PRC Shareholders to liabilities under PRC law

The Circular on Issues Relating to the Foreign Exchange Administration of Offshore Investments, Financing and Return Investments by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“**Circular No. 37**”), which was promulgated by SAFE and became effective in July 2014, requires a PRC domestic resident to file a “Registration Form of Offshore Investments Contributed by Domestic Individual Residents” and register with the local SAFE branch before he or she contributes assets or equity interests in an offshore special purpose vehicle (“**Offshore SPV**”), that is established or controlled by the PRC domestic resident for the purpose of conducting investment or financing. Following the initial registration, the PRC domestic resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including any major change of the Offshore SPV’s PRC domestic resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV’s registered capital, share transfer or swap, merger or division, or similar development. Failure to

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comply with the registration procedures of Circular No. 37 may result in penalties, including the imposition of restrictions on the foreign exchange transactions by the SPV's PRC subsidiary and its ability to distribute dividends to its offshore parent.

As Circular No. 37 was recently promulgated, it remains unclear how this regulation and any future legislation concerning offshore or cross-border transactions will be interpreted, amended and implemented by the relevant PRC government authorities. Any failure by our PRC Shareholders to register with SAFE or update SAFE's records may result in penalties and the prohibition of distribution or contributions from capital reductions, share transfers or liquidation of our PRC subsidiary and may affect our ownership structure, acquisition strategy, business operations and ability to make dividend payments to our Shareholders.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using proceeds we receive from the Placing to make loans or additional capital contributions to our PRC subsidiary

On 30 March 2015, SAFE promulgated Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (“**Notice 19**”) which will be effective on 1 June 2015 and revoked the Notice on Relevant Business Operations Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》). Notice 19 adopted the system of willingness-based foreign exchange settlement for the foreign exchange capital of foreign-invested enterprises. The foreign-invested enterprise shall, in principle, open a corresponding capital account-foreign exchange settlement account for pending payment with a bank to deposit RMB funds obtained from willingness-based exchange settlement and go through various payment formalities via such account. The capital of a foreign-invested enterprise and the RMB funds obtained from the exchange settlement thereof shall not be used for: expenditures beyond the enterprise's business scope or those prohibited by the laws and regulations of the PRC; investment, directly or indirectly, in securities (unless otherwise provided by laws and regulations); the issuance, directly or indirectly, of entrusted RMB loans (excluding those that are permitted within the business scope), repayment of inter-enterprise loans (including third party advances) and the repayment of banks' RMB loans re-lent to the third parties; the payment of relevant fees to the purchase of real estate property not for own use (except for foreign-invested real estate enterprises).

For the foreign-invested enterprises with serious and intentional violations of the relevant foreign exchange regulations, the foreign exchange authorities may cancel such enterprises' qualification of willingness-based exchange settlement, and banks are not allowed to process any foreign exchange business under capital accounts for such enterprises before they submit written explanation and make appropriate rectification. With regard to the foreign-invested enterprises and banks in violation of the provisions of Notice 19 in processing exchange settlement and use of capital, the foreign exchange authorities will punish them in accordance with the Regulations of the People's Republic of China on Foreign Exchange Control and relevant provisions.

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As an offshore holding company of our PRC subsidiary, our Company may make loans to our PRC subsidiary, or we may make additional capital contributions to our PRC subsidiary by utilising the proceeds we receive from the Placing, subject to the foreign investment regulations in the PRC. In addition, our capital contributions to our PRC subsidiary are subject to the approval and registration of local branches of SAIC and MOFCOM or other relevant local authorities. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our PRC subsidiary or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds received from the Placing and to fund our PRC operations may be adversely affected, which may adversely affect our liquidity and ability to expand our business.

Government control of currency conversion may adversely affect the value of your investments

Substantially all of our revenue is denominated in Renminbi, which is also our reporting currency. Renminbi is currently not a freely convertible currency. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on declared dividends, if any, on our Shares. Under existing foreign exchange regulations of the PRC, following the completion of the Placing, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements.

However, if the PRC government were to impose restrictions on access to foreign currencies for current account transactions at its discretion, we might not be able to pay dividends to the holders of our Shares in foreign currencies. On the other hand, most of the foreign exchange transactions under capital accounts in the PRC continue to be not freely convertible and require the approval of the SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing or to obtain foreign currencies for capital expenditures.

Furthermore, the net proceeds from the Placing are expected to be deposited in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected as we will not be able to invest these proceeds on RMB-denominated assets onshore or deploy them in uses onshore where Renminbi is required, which may adversely affect our business, results of operations and financial condition.

Our operating subsidiary, operations and significant assets are mainly located in the PRC. Shareholders may not be accorded the same rights and protection that would be accorded under the Companies Law

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability and is subject to the Companies Law. Guangzhou Great Water, our key operating subsidiary in the PRC, and substantially all of our operations are located in the PRC, and are therefore subject to the relevant laws in the PRC. The Companies Law may provide shareholders with certain rights and protection of which there may be no corresponding or similar provisions under PRC laws. As such, investors in our Shares may or may not be accorded the same level of shareholder rights and protection that would be accorded under the Companies Law.

RISK FACTORS

It may be difficult to effect service of process upon our Directors or executive officers who reside in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts

The legal framework to which our Company is subject is materially different from the Companies Ordinance or corporate laws in other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for the enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. However, according to the PRC Company Law, shareholders may commence a derivative action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances.

On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the “**Judgments Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Judgments Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

In addition, on 18 June 1999, the Supreme People’s Court of the PRC and the Government of Hong Kong signed the Arrangement Concerning Mutual Enforcement of Arbitral Awards between the Mainland and Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》) (the “**Arbitration Arrangement**”). This Arbitration Arrangement, made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Under the Arbitration Arrangement, awards that are made by the PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities are also enforceable in the PRC. However, so far as we are aware, there has not been any published report of judicial enforcement in the PRC by a holder of our Shares to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favour of a holder of Shares. Accordingly, we are unable to predict the outcome of any such action.

Substantially all of our Directors and executive officers reside within the PRC. Substantially all of our assets and substantially all of the assets of our Directors and executive officers are located within the PRC.

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Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other western countries or Japan. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may have an adverse effect on our business operations, results of operations and financial condition

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics, including but not limited to those caused by avian influenza or swine influenza, may restrict business activities in the areas affected and adversely affect our business and results of operations. For example, in 2009 and 2013, there were reports of the occurrence of two types of avian influenza in certain regions of the worlds, including the PRC, where we operate our business. Moreover, the PRC has experienced natural disasters like earthquakes, flood and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics, or the measures taken by the PRC government or other countries in response to such disasters and epidemics, will not seriously disrupt our operations or those of our distributors, which may have an adverse effect on our business and results of operations.

RISKS RELATING TO THE LISTING

There has been no prior public market for our Shares and an active trading market may not develop after the Listing

Prior to the Listing, there has been no public market for the Shares. There is no guarantee that an active trading market for the Shares will develop or be sustained upon completion of the Listing. A listing on the Stock Exchange does not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the Listing, or that the market price of the Shares will not decline following the Listing.

The trading volume and market price of our Shares may be volatile, which could result in substantial losses for Shareholders

The market price and trading volume of the Shares may be highly volatile. There are a number of factors which may affect the market price of the Shares, and these factors include, but are not limited to, changes in our income or cash flows, new investments, acquisitions and strategic alliances. Any such developments may result in large and sudden changes in the volume and market price at which the Shares will be trading. There is no guarantee that these developments will or will not occur in the future and it is difficult to quantify the impact on our Group and on the trading volume and market price of the Shares. Further, changes in the market price of our Shares may also be due to factors which may not be directly related to our financial or business performance.

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Shareholders' equity interests may be diluted as a result of additional equity fund-raising

In the future, we may need to raise additional funds to finance acquisitions, expansion or new developments of our business. If funds are raised through the issue of new equity and equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of the Shareholders in our Company may be reduced accordingly as a result of which Shareholders may experience dilution in their percentage shareholdings in our Company. Furthermore, it is also possible that such new securities may have preferred rights, options or pre-emptive rights that render them more valuable than or senior to the Shares.

Our financial results are expected to be affected by the expenses in relation to the Listing

The expenses in relation to the Listing are expected to be approximately HK\$23.3 million, of which approximately HK\$7.0 million is directly attributable to the issue of the Placing Shares and to be capitalised upon Listing, while the remaining HK\$16.3 million is chargeable to our profit and loss account. Out of this amount, approximately HK\$1.8 million and HK\$6.1 million had been charged to our profit and loss account for the year ended 31 December 2014 and the six months ended 30 June 2015 respectively, and a further amount of approximately HK\$8.4 million is expected to be charged to our profit and loss account as administrative expenses for the six months ending 31 December 2015. Further details are set out in the section headed "Financial Information — Listing Expenses" in this prospectus. These amounts are current estimates for reference only, and the actual amounts are subject to adjustments based on audit and changes in variables and assumptions. Therefore, we expect that the expenses in relation to the Listing will have a material adverse effect on our results of operations and financial condition for the year ending 31 December 2015.

Future sale of a substantial amount of Shares by existing Shareholders may adversely affect the market price of our Shares and our ability to raise equity capital

Any future sale of a substantial amount of our Shares by our existing Shareholders, or the possibility of such sale, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

There is no guarantee that our Substantial Shareholders or Controlling Shareholders will not dispose of the Shares held by them after the lock-up period, and the effect of which, if any, on the market price of the Shares cannot be predicted. The Shares held by our Controlling Shareholders, are subject to certain lock-up periods beginning on the Listing Date, details of which are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Undertakings" in this prospectus.

It is also possible that there may be a sale of a substantial amount of Shares by any of our Substantial Shareholders or Controlling Shareholders or the perception that such sale may occur, which may materially and adversely affect the prevailing market price of the Shares.

RISK FACTORS

RISKS RELATING TO THIS PROSPECTUS

Statistics and industry information may come from various sources which may not be reliable

This prospectus contains certain statistics and facts that have been extracted from government official sources and publications or other sources. We believe that the sources of these statistics and facts are appropriate for such statistics and facts and have taken reasonable care in extracting and reproducing such statistics and facts. We have no reason to believe that such statistics and facts are false or misleading or that any fact has been omitted that would render such statistics and facts false or misleading. However, these statistics and facts have not yet been independently verified by us, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, the Underwriters, any of their respective directors or any other party involved in the Listing and therefore, we make no representation as to the accuracy or completeness of these statistics and facts. As such, these statistics and facts should not be unduly relied upon.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus

There may have been coverage in the media regarding the Listing and our operations. We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

PLACING SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing. The listing of the Shares on GEM is sponsored and managed by Shenwan Hongyuan. The Placing is fully underwritten by the Underwriters pursuant to the Underwriting Agreement, subject to the terms and conditions of the Underwriting Agreement. Details about the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF THE PLACING SHARES

Each person acquiring the Placing Shares will be required to confirm, or be deemed by his/her acquisition of the Placing Shares to have confirmed that he/she is aware of the restrictions on offers and sales of the Placing Shares described in this prospectus.

As at the Latest Practicable Date, no action had been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation. No invitation may be made to the public in the Cayman Islands to subscribe for or purchase any of the Placing Shares.

The Placing Shares are offered solely on the basis of the information contained, and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or employees or any other persons involved in the Placing.

Prospective applicants for the Placing Shares should consult their financial advisers and take legal advice, as appropriate to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Placing Shares should inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

APPLICATION FOR LISTING ON GEM

Our Company satisfies the requirements relating to continuity of ownership and control throughout the full financial year immediately preceding the Latest Practicable Date and up until the Listing Date under Rule 11.12A(2) of the GEM Listing Rules.

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Placing. Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. A total of 75,000,000 Placing Shares representing 25% of the enlarged issued share capital of our Company will be in the hands of the public immediately following completion of the Placing and upon Listing.

No part of our Company's share or loan capital is listed or dealt in on any other stock exchange. As at the Latest Practicable Date, our Company was not seeking or proposing to seek a listing of, or permission to deal in, any part of its share or loan capital on any other stock exchange other than the Stock Exchange.

The Shares are freely transferable. Under Section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment or transfer made in respect of any placing of the Placing Shares will be void if permission for the listing of, and dealing in, the Shares on GEM has been refused before the expiration of three weeks from the date of closing of the Placing or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder.

It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, any of the Underwriters and their respective directors or employees or any other persons involved in the Placing accepts responsibility for any tax effects on, or liability of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares.

REGISTER OF MEMBERS AND STAMP DUTY

All the Placing Shares will be registered on our Company's branch share register to be maintained in Hong Kong by Tricor Investor Services Limited. Our principal register of members will be maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited. Dealings in the Shares will be subject to Hong Kong stamp duty. For further details about Hong Kong stamp duty, please refer

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

to the section headed “Statutory and General Information — Other Information — Taxation of holders of Shares” in Appendix V to this prospectus. Dealings in the Shares will not be subject to the Cayman Islands stamp duty.

STRUCTURE AND CONDITIONS OF THE PLACING

Further details of the structure and conditions of the Placing are set out in the section headed “Structure and Conditions of the Placing” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on any other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on or about Wednesday, 9 December 2015. Shares will be traded in board lots of 4,000 Shares each. The GEM stock code for the shares is 8196.

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, amounts denominated in RMB, US\$ and VND have been translated into HK\$ at the rate of RMB1.00 to HK\$1.27, US\$1.00 to HK\$7.80 and VND2,810.99 to HK\$1.00 and vice versa. No representation is made that any amounts in RMB, US\$ or VND could have been, or could be, converted into HK\$ at such rates or at any other rate on such date or on any other date.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. XIE Yang (謝楊先生)	Flat 1103, Building 11 Jiu Ru Tong Jin Riverside Garden, Luopu Street Panyu District, Guangzhou, PRC	Chinese
Mr. HE Xuan Xi (何炫曦先生)	Flat No. 1, Xin Wu Lane 5, Pa Zhou Shi Ji Village, Haizhu District, Guangzhou, PRC	Chinese
<i>Non-executive Directors</i>		
Ms. GONG Lan Lan (龔嵐嵐女士)	Flat 2301, 23/F, No. 8 Lane 188, Mingyue Road Shanghai, PRC	Chinese
Mr. SONG Xiao Xing (宋曉星先生)	Flat 301, No. 16 Lane 881, Yinxing Road Shanghai, PRC	Chinese
<i>Independent non-executive Directors</i>		
Ms. BAI Shuang (白爽女士)	Flat 3003, No. 86, Huacheng Road Zhujiang Xincheng, Tianhe District, Guangzhou, PRC	Chinese
Mr. HA Cheng Yong (哈成勇先生)	368 Xingke Road, Tianhe District Guangzhou, PRC	Chinese
Mr. TSE Chi Wai (謝志偉先生)	Flat C, 17/F, 47 Broadway Mei Foo Sun Chuen Kowloon, Hong Kong	Chinese

For further information, please refer to the section headed “Directors, Senior Management and Staff” of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED IN THE PLACING

Sole Sponsor, Sole Bookrunner and Sole Lead Manager	Shenwan Hongyuan Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong
Underwriters	Shenwan Hongyuan Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong China Times Securities Limited Room 503, 5/F, The Sun's Group Centre 200 Gloucester Road Hong Kong
Legal advisers to our Company as to Hong Kong law	Nixon Peabody CWL in association with Hylands Law Firm 50th Floor, Bank of China Tower 1 Garden Road Central, Hong Kong <i>(Solicitors of Hong Kong)</i>
Legal advisers to our Company as to PRC law	Zhong Lun Law Firm 10/F, Tower A Rongchao Tower 6003 Yitian Road Futian District Shenzhen, PRC
Legal advisers to our Company as to Cayman Islands law	Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Legal advisers to our Company as to Vietnamese law	S&B Law Company Limited 18th Floor, Center Building Hapulico Complex No. 85 Vu Trong Phung Street, Thanh Xuan Dist. Hanoi, Vietnam

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Legal advisers to Sole Sponsor and the Underwriters as to Hong Kong law	Li, Wong, Lam & W.I. Cheung 22nd Floor, Infinitus Plaza 199 Des Vouex Road Central Hong Kong <i>(Solicitors of Hong Kong)</i>
Auditors and reporting accountants	Ernst & Young 22/F, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong <i>(Certified Public Accountants)</i>
Property valuer	Roma Appraisals Limited Unit 3806, 38/F China Resources Building 26 Harbour Road Wan Chai, Hong Kong
Compliance adviser	Shenwan Hongyuan Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong

For details on qualifications of the Sole Sponsor, our Company's legal advisers as to PRC law, legal advisers as to Cayman Islands law, legal advisers as to Vietnamese law, property valuer and our compliance adviser, please refer to the section headed "Statutory and General Information — Other Information — 8. Qualifications of Experts" in Appendix V to this prospectus.

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarters and principal place of business in the PRC	No. 18 Keyan Road Science City High-tech Industrial Development Zone Guangzhou, PRC
Principal place of business in Hong Kong	50th Floor, Bank of China Tower 1 Garden Road Central, Hong Kong
Compliance officer	Mr. HE Xuan Xi
Company secretary	Mr. TSUI Kan Chun (<i>HKICS, HKICPA</i>) Flat D, 6/F, Block 1 Villa Athena, Ma On Shan New Territories, Hong Kong
Authorised representatives	Mr. XIE Yang Flat 1103, Building 11 Jiu Ru Tong Jin Riverside Garden, Luopu Street Panyu District, Guangzhou, PRC Mr. TSUI Kan Chun Flat D, 6/F, Block 1 Villa Athena, Ma On Shan New Territories, Hong Kong
Audit committee	Mr. TSE Chi Wai (<i>Chairman</i>) Mr. HA Cheng Yong Ms. BAI Shuang
Remuneration committee	Mr. HA Cheng Yong (<i>Chairman</i>) Ms. BAI Shuang Mr. XIE Yang
Nomination committee	Mr. XIE Yang (<i>Chairman</i>) Ms. BAI Shuang Mr. TSE Chi Wai

CORPORATE INFORMATION

Principal share registrar and transfer office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong branch share registrar and transfer office

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

Principal bankers

Industrial and Commercial Bank of China
Guangzhou Economic and Technological Development
District Branch
No. 2 Xiangxue 2nd Road
Kaichuang Avenue North
Luogang District
Guangzhou City
PRC

Shanghai Pudong Development Bank
Guangzhou Branch
Level 2
No. 12 Zhujiang Road West
Tianhe District
Guangzhou City
PRC

Company website^(Note)

www.greatwater.com.cn

Note: The information on the website of our Company does not form part of this prospectus.

INDUSTRY OVERVIEW

This section contains certain information which is derived from official government resources, the commissioned reports prepared by Euromonitor and E20 and the research report prepared by JIEI and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor, E20 and JIEI should not be considered as the opinion of Euromonitor, E20 nor JIEI as to the value of any security or the advisability of investing in our Group. We believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor, E20 and JIEI set out in this section has not been independently verified by our Group, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, any of the Underwriters or any of our or their respective directors, officers or representatives or any other party involved in the Placing and none of them, including Euromonitor, E20 and JIEI, gives any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

REPORTS COMMISSIONED FROM EUROMONITOR, E20 AND REPORT PREPARED BY JIEI

We have commissioned Euromonitor and E20, both of which are independent third parties, to conduct research and to prepare reports on the wastewater treatment industry and wastewater treatment engineering services industry in the PRC respectively. We paid Euromonitor and E20 RMB457,500 and RMB200,000 respectively for the preparation and use of the reports. We have also paid JIEI RMB10,000 for the use of their research report in relation to the soil remediation industry in the PRC.

Euromonitor is a leading provider of global market intelligence established in 1972 with offices worldwide. E20 was established in 2000 and is an experienced research and advisory entity in the environmental industry in the PRC. Partnering with Tsinghua University, E20 has conducted consultancy, research, and advisory projects and acts as the policy advisor for various PRC government authorities including the Ministry of Environmental Protection, Ministry of Housing and Urban-Rural Development and the State-owned Assets Supervision and Administration Commission of the State Council. JIEI was established in 2011 and is a research institute authorised by the Science and Technology Division of the Jiangsu Province. With a team of professional and experienced researchers, JIEI has been appointed by the Ministry of Environmental Protection to conduct various research projects related to environmental protection. JIEI also holds international conferences with leading environmental protection enterprises worldwide such as Savaterra from Finland and BKT Group from Korea for knowledge transfer. The research reports published periodically by JIEI are widely used by practitioners in the environmental industry in the PRC.

In preparing the Euromonitor Report, E20 Report and JIEI Report, Euromonitor, E20 and JIEI have, where appropriate, conducted primary and secondary market research including: (i) interviews with a sample of leading industry participants and industry experts; (ii) reviewing published and official sources such as statistics from the National Bureau of Statistics of the PRC, the China Association of Environmental Protection Industry and Association of Environmental Protection Industry of Guangdong;

INDUSTRY OVERVIEW

(iii) consultation with our Group and obtaining company reports including audited financial statements, and (iv) examining data from independent research reports and data based on Euromonitor's, E20's or JIEI's own research database.

In compiling and preparing the Euromonitor Report, E20 Report and JIEI Report, Euromonitor, E20 and JIEI have, where applicable, made the following major assumptions and the choice of parameters:

- (i) the Chinese economy is expected to maintain steady growth over the forecast period;
- (ii) the Chinese social, economic, and political environment is expected to remain stable in the forecast period;
- (iii) there will be no external shock, such as financial crisis or raw material shortage that affects the demand and supply of wastewater treatment in the PRC during the forecast period;
- (iv) key drivers including favourable regulations and growing demand for soil remediation are likely to drive the future growth of the soil remediation market; and
- (v) key market drivers such as stable economic growth, rapid urbanisation, favourable policies, and rising environmental protection awareness are expected to boost wastewater consumption and the development of the wastewater treatment market and their forecasts are based on the aforementioned market drivers.

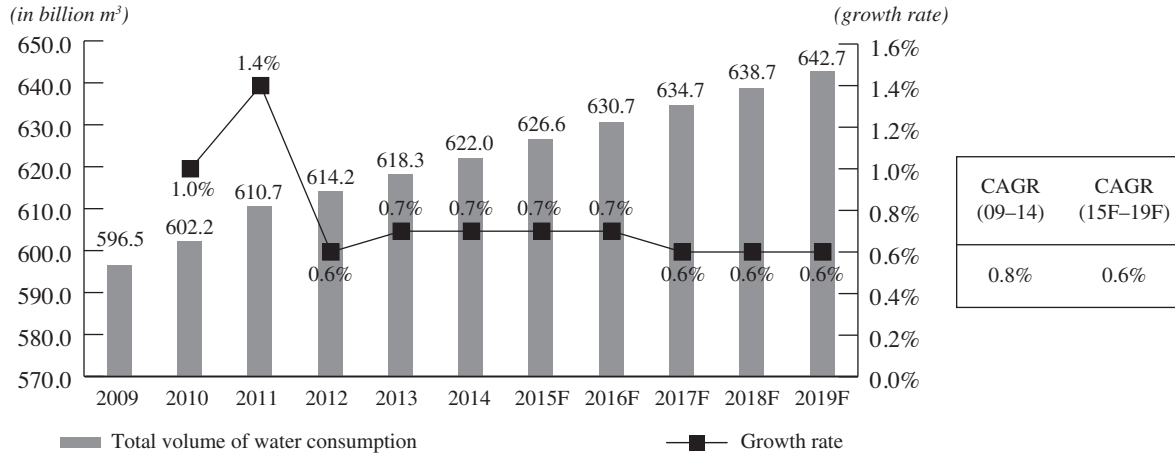
The information contained in the Euromonitor Report, E20 Report and JIEI Report may be affected by the accuracy of the foregoing assumptions and choice of parameters. Our Directors confirm that, as of the Latest Practicable Date, after taking due and reasonable care, there was no adverse change in the market information since the date of the Euromonitor Report, E20 Report and JIEI Report which may qualify, contradict or have an impact on the information in this section.

INDUSTRY OVERVIEW

OVERVIEW OF THE WASTEWATER TREATMENT INDUSTRY IN THE PRC

Water consumption in the PRC

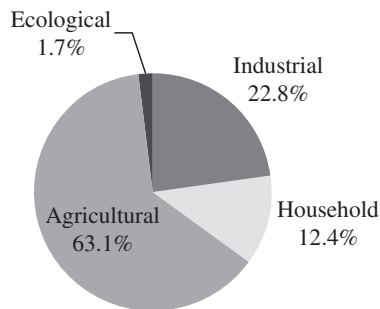
Exhibit 1: Water Consumption in the PRC



Source: National Statistics Bureau of China, Euromonitor Report

According to the Euromonitor Report, the PRC encounters a severe water resource crisis throughout the country. The fast pace of industrialisation and urbanisation generates water demand from both the industrial and municipal sides in the PRC. Water consumption grew at a steady pace during the period from 2009 to 2014 with a CAGR of 0.8% and reached 622.0 billion cubic metres in 2014. Euromonitor estimated that the volume of water consumption is expected to grow at a CAGR of 0.6% over the period from 2015 to 2019 and reach 642.7 billion cubic metres in 2019.

Exhibit 2: Water Consumption Breakdown by Usage in the PRC, 2014



Source: National Statistics Bureau of China, Euromonitor Report

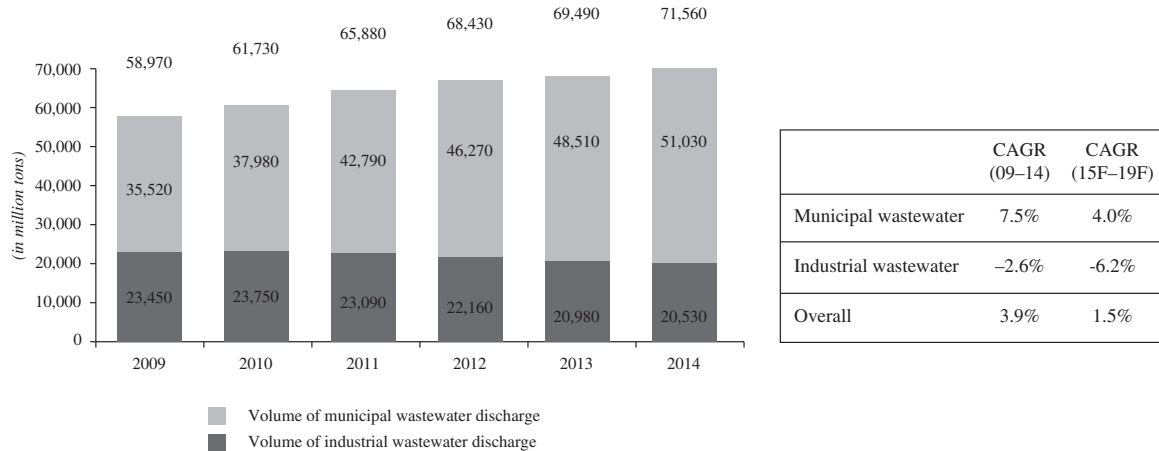
The continuous growth in water consumption has directly resulted in an increase in the volume in wastewater discharge. As shown in Exhibit 2, the percentage of water consumption by the household and industrial sectors accounted for approximately 35.2% of the entire water consumption in 2014, representing a volume 219 billion m³. According to the Euromonitor Report, water pollution is prevalent in the PRC as a result of (i) large population base as well as accelerating modernisation and urbanisation which lead to the increased volume of municipal wastewater; (ii) heavy reliance on the industrial sector,

INDUSTRY OVERVIEW

where large volume of industrial wastewater containing heavy metal and chemical substances is discharged from the manufacturing process; and (iii) polluted agricultural wastewater arising from excessive application of pesticides and chemical fertilisers flowing into rivers. The increasing volume of wastewater discharge in turn drives the demand for wastewater treatment services as well as wastewater treatment engineering services.

Wastewater Discharge in the PRC

Exhibit 3: Volume of Municipal and Industrial Wastewater Discharge in the PRC



Source: Ministry of Environmental Protection of the PRC, Euromonitor Report

Municipal wastewater refers to urban household wastewater, which is mainly discharged from households (e.g. kitchen, bathroom, laundry and other living facilities) and public facilities (e.g. hotels, theatres, stadiums, schools, shops, etc.). Industrial wastewater mainly refers to the wastewater discharged by manufacturing plants during various industrial processes.

As illustrated in Exhibit 3 above, the total amount of municipal and industrial wastewater discharge reached 71.6 billion tons in 2014, indicating an increase of 21.4% as compared with 59.0 billion tons in 2009. Euromonitor estimated that the total volume of wastewater discharge in the PRC is expected to grow steadily to 77.3 billion tons in 2019, with a CAGR of 1.5% over the period from 2015 to 2019.

Municipal wastewater contributed to a majority of wastewater discharge during the year 2009 to 2014. In light of the modernisation and urbanisation in the PRC, the quantity of municipal wastewater discharge reached 51.0 billion tons in 2014, representing an increase of 43.7% as compared with 35.5 billion tons in 2009. According to Euromonitor, the municipal wastewater discharge will continue to grow at a CAGR of 4.0% from 2015 to 2019 as the urbanisation process is expected to continue in the PRC.

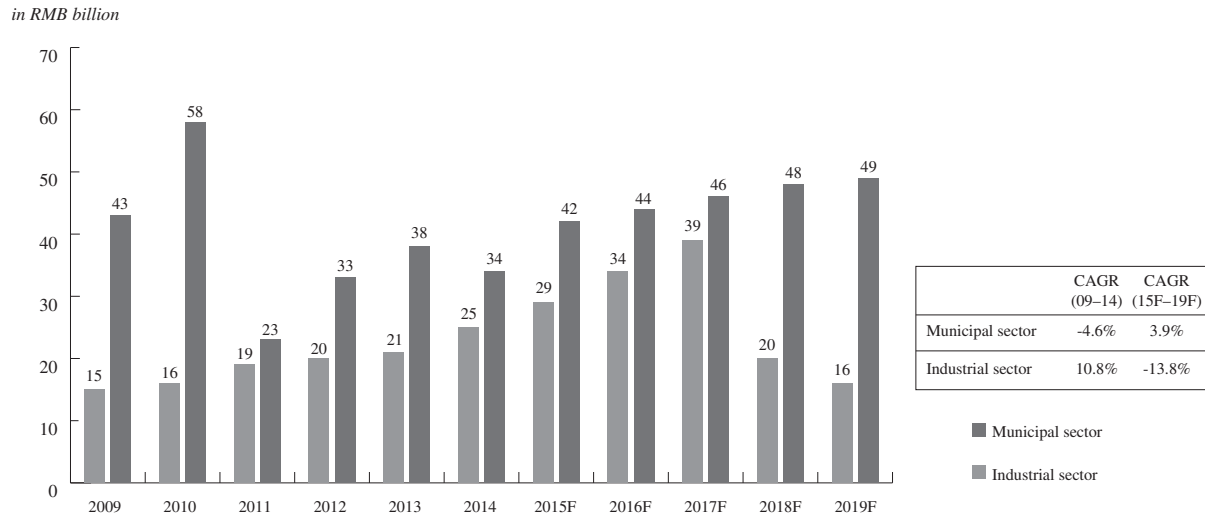
Meanwhile, due to the government's continuous effort in controlling industrial wastewater discharge and the improvements in the industrial processes, the quantity of industrial wastewater discharge declined 12.8% from 23.5 billion tons in 2009 to 20.5 billion tons in 2014. Euromonitor

INDUSTRY OVERVIEW

expects the decreasing trend will continue as new technologies will help eliminate those industrial processes which produce high level of pollutants and government will continue to enforce strict environmental protection laws and regulations to reduce pollution.

Wastewater Treatment Engineering Services Industry in the PRC

Exhibit 4: Amount of Investment in Wastewater Treatment Engineering Projects in the PRC



Source: E20 Report

According to the E20 Report, the total amount of investment in wastewater treatment engineering projects in the municipal sector was significantly higher in 2009 and 2010 than in recent years. This was due to the increase in the number of wastewater treatment facilities constructed during the 11th Five-Year-Plan Period (from 2006–2010). In particular, a large number of construction projects were completed in 2010 to meet the target for the inspection by government close to the end of the 11th Five-Year-Plan Period. From 2011 to 2014, the total amount of investment in wastewater treatment projects in the municipal sector was growing steadily and is expected to continue to grow at a CAGR of 3.9% from 2015 to 2019.

For the industrial sector, the total amount of investment in wastewater treatment projects was growing steadily from 2009 to 2014, and is expected to reach the peak in 2017. According to the Action Plan for Water Pollution Prevention and Control (《水污染防治行動計劃》, or 《水十條》) promulgated and implemented in 2015, factories in a number of targeted industrial areas should complete the construction of centralised wastewater treatment facilities before end of 2017. The PRC government can refuse to approve the expansion plans for entities who fail to complete the construction works on time. As a result, it is anticipated that a majority of the wastewater treatment construction works in the industrial segment will be undertaken and completed before end of 2017 and the amount of investment may decrease in 2018.

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Operating models of municipal and industrial wastewater treatment industry in the PRC

Municipal wastewater treatment industry

According to the Euromonitor Report, the municipal wastewater treatment industry often consists of government projects where the BOT (Build-Operate-Transfer) model is widely applied. Under the BOT model, the project is usually assigned by the project host (usually a government or public authority) to a BOT operator who designs, builds and operates the project facilities for a certain period of time. The BOT operator will receive payment through income generated from operations of the facilities after completion. The project facilities will be transferred back to the project host after the agreed operation period.

As projects operated under the BOT model are usually of larger scale, the BOT operator often subdivides the project into different sections and assigns the sections to other sub-contractors. The BOT model not only has the advantage of higher efficiency, but also helps reduce the government budgets for public facilities.

Industrial wastewater treatment industry

Industrial wastewater treatment projects are often operated under the EPC (Engineering-Procurement-Construction) model. Under the EPC model, the contractor designs the installation, procures necessary equipment and builds the project. The contractor will then receive payment according to the construction progress of the project.

Industrial wastewater treatment projects are driven by manufacturing companies who need to build wastewater treatment facilities to meet the government's requirements on the quality of wastewater discharged and therefore their scale are often smaller than municipal wastewater treatment projects. The advantages of the EPC model are that the capital requirement for contractor is less intensive and the project host can enjoy a one-stop service for the building of the entire wastewater treatment facility.

COMPETITIVE LANDSCAPE OF WASTEWATER TREATMENT ENGINEERING SERVICES INDUSTRY IN THE PRC

The participants in the wastewater treatment engineering services industry mainly consists of companies that are principally engaged in the provision of design, engineering and construction services to wastewater treatment operators. According to the E20 Report the wastewater treatment engineering services industry is fragmented due to:

- (i) the geographical dispersion of end users. Owing to the nature of wastewater treatment projects, the municipal and industrial wastewater discharged by households and factories has to be processed in the area where it is discharged. The cost of centralising wastewater in different cities is high and is principally impracticable. The service locality of a wastewater treatment engineering services provider is further constrained by the required level of knowledge in the laws and regulations of a certain city or county, as well as the liaison with local government.

INDUSTRY OVERVIEW

- (ii) the disparate engineering specialty and technical know-how required for treating a particular type of industrial wastewater. For the industrial sector, each downstream industry has different effluents due to the diversity in the combination of pollutants. In this regard, most engineering service contractors may only possess the relevant technical know-how for certain types of industry.

According to the E20 report, there are more than 1,000 companies in the wastewater treatment engineering services industry who possess the relevant qualifications in the PRC (details of which are set out in the section headed “Laws and Regulations”) with a total market size of approximately RMB59 billion. The total market share of the top five and top ten participants by revenue in 2014 was approximately 16.3% and 20.1% respectively. Our Group accounted for approximately 0.16% of the market share.

The following table sets forth the top five wastewater treatment engineering services providers in the PRC by revenue in 2014:

Ranking	Company	Headquarter	Market share
1	Company A	Beijing	5.6%
2	Company B	Beijing	4.9%
3	Company C	Beijing	3.2%
4	Company D	Beijing	1.5%
5	Company E	Yixing, Jiangsu	1.1%

Source: E20 Report

ENTRY BARRIERS OF WASTEWATER TREATMENT ENGINEERING SERVICES INDUSTRY IN THE PRC

According to the Euromonitor Report, the main entry barriers to the wastewater treatment engineering services industry are as follows:

- **Qualifications.** Engineering services providers in the wastewater treatment industry are required to obtain relevant qualification certificates, for example, “Qualification of Environmental Engineering Specialty Design” (環境工程專項設計資質) and “Qualification of Environmental Engineering Professional Contractor” (環保工程專業承包企業資質), before carrying out any projects. They have to meet different requirements such as operation duration, registered capital, experiences, staff number in order to obtain different levels of qualification. Such requirements may pose an entry barrier to new entrants with less experience.
- **Strong technological capacity.** As a wastewater treatment project involves a series of processes including building, design, installation and testing of treatment facilities, strong technology expertise is required for each stage of the project. Moreover, as water discharge standards stipulated by the government have become increasingly stringent, an engineering

INDUSTRY OVERVIEW

services provider without strong expertise and proven track record may find it difficult to design and build the facilities which meet the requirements and hence, it is hard for new entrants to obtain a wastewater treatment project.

- **Availability of capital.** The wastewater treatment engineering services industry requires good financial strength. Euromonitor believes that engineering services providers need sufficient capital availability to fund the working capital needs, such as the cost for construction, procurement of equipment and payment to sub-contractors before they receive payments from customers. Therefore, new entrants has to raise adequate funding before coming into this industry.

KEY DRIVERS FOR WASTEWATER TREATMENT ENGINEERING SERVICES INDUSTRY IN THE PRC

According to the Euromonitor Report, the following factors are the key drivers of the wastewater treatment engineering services industry:

- **Growing economy.** As Euromonitor pointed out, the steadily growing economy of the PRC provides fundamental support for the development of wastewater treatment industry. With increasing disposable income, people require a higher quality of life and a better living environment. Euromonitor noted that society is paying more attention to the environmental protection industry than before, which should propel the development of the wastewater treatment industry and benefit the upstream industries including the wastewater treatment engineering services industry as well.
- **Rapid urbanisation and continuing industrialisation.** The rapid urbanisation progress and improved living standards have driven up water consumption, which will eventually boost the volume of municipal wastewater discharge. As stated in the 12th Five-Year-Plan, it is targeted that the wastewater treatment rates in cities, counties and town should reach 85%, 70% and 30%, respectively, by 2015, up from 77.5%, 60.1% and below 20%, respectively, in 2010. As for the industrial sector, it remains to be a significant driver of the PRC's economy which contributed 36.9% of the PRC's GDP in 2013. The growth of the industrial sector in the PRC, the strengthening law and regulation enforcement will drive industries to invest in wastewater treatment facilities and uphold the quality standard for the wastewater discharged. As urbanisation and industrialisation continues in the PRC, Euromonitor believes it will further drive the development of the wastewater treatment industry and increase the demand for relevant engineering services.
- **Government support and regulation.** The PRC government has promulgated a series of regulations and standards to regulate wastewater treatment industry. Moreover, according to the 12th Five-Year Plan, the government intended to increase investment in the wastewater treatment industry, where nearly RMB430 billion will be invested in municipal wastewater treatment and recycling facilities during the period from 2011 to 2015. As Euromonitor pointed out, the newly implemented Environmental Protection Law of the PRC as well as the Action Plan for Water Pollution Prevention and Control (《水污染防治行動計劃》), or 《水十

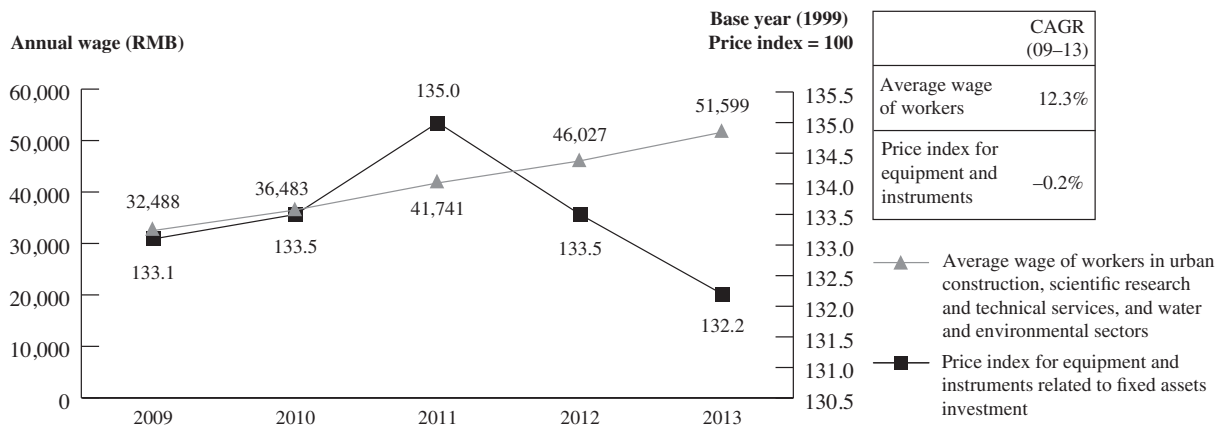
INDUSTRY OVERVIEW

條》) published in 2015 clearly exhibit the government’s commitment to tackle wastewater issues and this drives the continuous growth of the wastewater treatment engineering services industry.

PRICE TRENDS OF KEY ELEMENTS FOR THE WASTEWATER TREATMENT ENGINEERING SERVICES INDUSTRY

Building wastewater treatment projects typically involves direct labour costs for performing the civil construction and installation work, as well as procuring various mechanical parts and equipment of different specifications for integrating the wastewater treatment system.

Exhibit 5: Average wage of employees in urban construction sector and price index for equipment and instruments related to fixed assets investment



Source: China Statistical Yearbook

Considering that the parts and equipment used in wastewater treatment projects usually have stable supply and substitutes are readily available, their pricing are generally determined and affected by prevailing market conditions and inflation rates. According to China Statistical Yearbook (《中國統計年鑒》) compiled by National Bureau of Statistics of the PRC and illustrated in Exhibit 5 above, the price index of equipment and instruments relating to fixed assets investment fluctuated between 132.2 to 135.0 from 2009 to 2013. It is expected that the price trend of parts and equipment used in our projects will remain closely correlated to the general price trend of those used in the PRC’s fixed assets investment projects in the future.

In respect of direct labour costs, the average annual wage of workers in the urban construction, scientific research and technical services, and water and environmental sectors increased from RMB32,488 in 2009 to RMB51,599 in 2013, with a CAGR of 12.3%, which exceeds the inflation rate in the PRC for the corresponding period. Such increase was mainly due to the shortage of skilled and experienced human resources in the PRC’s growing economy, especially in the sector of scientific research and technical services. It is expected the increasing trend of the average wage will continue in the future.

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OUTLOOK OF SOIL REMEDIATION ENGINEERING SERVICES INDUSTRY IN THE PRC

Soil remediation refers to the process of purifying and revitalising polluted soil by using physical, chemical or biological methods. Soil contamination is mainly caused by the usage of chemical fertiliser and pesticide, industrial sludge disposal, sewage irrigation, and improper mineral extraction. According to the survey results conducted by the Ministry of Environmental Protection of the PRC and the Ministry of Land Resources of China, 16.1% of soil in the PRC had been polluted by the end of 2013. The survey bulletin states that the soil environment in the PRC faces serious problems, especially in farmland and industrial and mining wasteland and soil remediation has become an imperative need.

COMPETITIVE LANDSCAPE OF SOIL REMEDIATION ENGINEERING SERVICES INDUSTRY IN THE PRC

At the current moment, the soil remediation industry only represents a minor portion of the whole environmental protection industry when comparing with air and wastewater treatment and presents huge potential for growth and development. It is expected that more investments as well as market participants will be attracted to this industry in the near future.

The soil remediation engineering services industry in the PRC is still in its early stage of development as the government did not propel soil remediation until the recent decade. According to JIEI, there are more than 100 companies in the soil remediation engineering services industry in the PRC with a total market size of approximately RMB14 billion in 2014. The top five market participants by revenue in 2014 accounted for approximately 29.6% of the total market share of the whole industry.

The following table sets forth the top five soil remediation engineering services providers in the PRC by revenue in 2014:

Ranking	Company	Headquarter	Market share
1	Company F	Beijing	18.0%
2	Company G	Beijing	7.0%
3	Company D	Beijing	2.0%
4	Company H	Chongqing	1.4%
5	Company I	Changsha, Hunan	1.2%

Source: JIEI Report

INDUSTRY OVERVIEW

ENTRY BARRIERS OF SOIL REMEDIATION ENGINEERING SERVICES INDUSTRY IN THE PRC

According to Euromonitor and JIEI, the main entry barriers to the soil remediation engineering services industry are as follows:

- **Qualifications.** Soil remediation engineering services providers are required to obtain “Qualification of Environmental Engineering Professional Contractor” (環保工程專業承包企業資質), before carrying out any soil remediation projects. They have to meet different requirements such as operation duration, registered capital, experiences and staff number in order to obtain such qualification. Such requirements may pose an entry barrier to new entrants with less experience.
- **Strong technological capacity.** Soil remediation engineering services providers need to possess strong technical knowledge in soil pollution in order to tailor effective remediation plans for soil in different locations with different contaminants. This sets a high entry barrier for new entrants who wish to enter into this industry.
- **Availability of capital.** Participants in the soil remediation engineering services industry need to have sufficient financial strength to fund the initial working capital needs in relation to settling the costs of contamination assessment, equipment leasing and sub-contractor costs before they receive payments from customers. This is especially true for larger scale projects where the project duration can last for years. Therefore, new entrants have to raise adequate funding before they come into this industry.

KEY DRIVERS FOR SOIL REMEDIATION ENGINEERING SERVICES INDUSTRY IN THE PRC

According to Euromonitor and JIEI, the following factors are the key drivers of the soil remediation engineering services industry:

- **Government support and regulations.** The PRC government has been paying increasing attention to soil contamination problems in recent years. The Ministry of Environmental Protection of the PRC drafted the Plans for Prevention and Treatment of Soil Contamination (《土壤污染防治行動計劃》 or 《土十條》) which includes the proposed measures and requirements for soil protection, and is expected to be published in 2015. In addition, soil remediation has been listed as one of the key tasks in the 12th Five-Year Plan.
- **Growing demand driven by rapid urbanisation.** Along with the continuous urbanisation in the PRC, many industrial enterprises are forced to relocate to less developed or inland areas to free up lands in cities for residential and commercial developments. Many vacated sites have been polluted and require soil remediation before re-development. In particular, the heavy usage of chemical fertiliser and pesticide in the PRC’s agricultural industry has also driven the demand for soil remediation. The rapid pace of urbanisation and people’s increasing awareness in environmental protection have created huge potential for development of the soil remediation industry.

LAWS AND REGULATIONS

PRC LAWS AND REGULATIONS

Sets out below are the general laws and regulations that are relevant to our Group's operation and business in PRC.

REGULATORY ENVIRONMENT

According to the Catalogue of Industries for Guiding Foreign Investment (2015 Revision) (《外商投資產業指導目錄(2015年修訂)》) promulgated by the MOFCOM and the NDRC, the wastewater treatment industry falls within the category of industries in which foreign investment is encouraged. Foreign investors may participate in the construction and operation of wastewater treatment projects within the PRC by means of the establishment of joint ventures or wholly foreign owned enterprises.

LAWS AND REGULATIONS ON LICENCES AND CERTIFICATES

Qualifications for Construction Enterprises

According to the Construction Law of the PRC (《中華人民共和國建築法》) adopted by the National People's Congress Standing Committee of the PRC, revised and implemented on 1 July 2011, construction engineering enterprises, prospecting enterprises, design enterprises and project supervisory enterprises have to pass qualification examinations and obtain appropriate qualification certificates in order to engage in construction activities within their scope and business qualification class.

The Administrative Rules of the Qualifications of Construction Enterprises (《建築業企業資質管理規定》) implemented by the MOHURD on 1 March 2015, further provides the classification of qualifications for construction enterprises. There are three categories: (i) general contractor (施工總承包資質); (ii) professional contractor (專業承包資質) and (iii) labour sub-contractor (施工勞務資質).

Except for the labour sub-contractor qualification, each category of qualification for construction enterprises is divided into different levels, which are determined by the construction enterprise's registered capital, technical skills, equipment and past performance. The qualification certificate is valid for a period of five years and may be extended for another five years by application three months before expiration.

LAWS AND REGULATIONS

The specific regulations in relation to this qualification are set out in the Standards for the Qualification Grades of Environmental Engineering Professional Contractor (環保工程專業承包企業資質等級標準) implemented by the MOHURD on 1 January 2015. According to these standards, the qualification is classified into three levels, namely level 1, level 2 and level 3, which permit the qualification holder to perform projects of different scales as further illustrated in the table below:

Requirements and permitted scope of work under the Standards for the Qualification Grades of Environmental Engineering Professional Contractor

		Requirement on key personnel of company						
		Number of registered constructor (註冊建築師)	Technical engineer in charge	Number of engineer possessing intermediate professional title (中級職稱)	Number of certified management personnel on site	Number of trained staffs	Permitted scope of work	
Level 1 Qualification	Above RMB20 million	No less than 5	More than 10 years working experience in engineering management; and possess senior professional title (高級職稱)	No less than 20	No less than 20	No less than 30	Completed 2 large scale or 3 medium scale environmental protection projects in the past 5 years	No limitation on type and scale
Level 2 Qualification	Above RMB6 million	No less than 5	More than 8 years working experience in engineering management; and possess senior professional title or level 1 registered constructor qualification (一級註冊建造師執業資格)	No less than 10	No less than 15	No less than 20	Completed 2 medium scale or 3 small scale environmental protection projects in the past 5 years	Pollution remediation environmental project: large scale or below; Wastewater treatment project: medium scale or below
Level 3 Qualification	Above RMB1.5 million	No less than 2	More than 5 years working experience in engineering management; and possess intermediate professional title or level 1 registered constructor qualification (一級註冊建造師執業資格)	No less than 5	No less than 10	No less than 10	The technical engineer in charge had completed at least 2 similar projects before	Pollution remediation environmental project: medium scale or below; Wastewater treatment project: small scale or below

LAWS AND REGULATIONS

In respect of wastewater treatment and pollution remediation, the classification of project scale as referred to in the experience requirement and permitted scope of work for environmental engineering professional contractors are set out below:

Environmental Engineering Project Scale Classification relating to our Group

Category	Project type	Unit	Large scale	Medium scale	Small scale
Wastewater treatment	Industrial wastewater treatment	tons/day (wastewater)	≥5,000	1,000–5,000	<1,000
		kilogram/day (COD capacity)	≥10,000	4,000–10,000	<4,000
	Municipal wastewater treatment	tons/day	≥20,000	8,000–20,000	<8,000
	Wastewater re-use	tons/day	≥10,000	2,000–10,000	<2,000
Pollution remediation	pollution site, soil, mine remediation	investment amount: RMB'000	≥30,000	5,000–30,000	<5,000

Conducting construction business without qualification or beyond the scope prescribed by the qualification will result in penalties being imposed by the construction authority. Our Group currently has obtained the Qualification of Environmental Engineering Professional Contractor (Level 3) (環保工程專業承包三級資質) (a sub-category of professional contractor qualification in relation to our principal business) issued by Guangzhou Urban-Rural Construction Committee (廣州市城鄉建設委員會), which shall expire on 18 January 2018, entitles us to undertake pollution remediation project of medium scale or below, and wastewater treatment project of small scale or below.

In respect of equipment projects involving solely the provision of material and equipment procurement services to BOT operators in large scale municipal wastewater/drinking water treatment projects, our PRC Legal Advisers advised that our Group is not subject to any mandatory qualification requirements for carrying out these projects in the PRC.

As confirmed by our PRC Legal Advisers, we have obtained all necessary qualifications to carry out our business as a professional contractor for wastewater treatment and pollution remediation construction projects.

Qualifications for Engineering Design Enterprises

According to the Regulations on Administration of Construction Engineering Survey and Design (《建設工程勘察設計管理條例》) implemented by the State Council on 25 September 2000 and the Provisions on Administration of Qualification for Engineering Survey and Design (《建設工程勘察設計資質管理規定》) implemented by the Ministry of Construction, currently incorporated into the MOHURD, on 1 September 2007, the Standards for Engineering Design Qualification (《工程設計資質標準》) implemented on 29 March 2007 and relevant regulations, enterprises participating in engineering design business have to obtain the relevant qualifications. The engineering design qualifications are classified into four categories: (i) the integrated engineering design qualification (工程設計綜合資質); (ii) industry specific engineering design qualification (工程設計行業資質); (iii) professional engineering design qualification (工程設計專業資質); and (iv) specialty engineering design qualification (工程設計

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專項資質). Except for the integrated engineering design qualification, other engineering design qualifications above are further divided into Class A and Class B qualifications based on the types of engineering works and techniques the qualification holders undertake and utilise.

Pollution treatment engineering service providers are required to obtain the Environmental Engineering Specialty Design Qualification (環境工程專項設計資質), which is a sub-category of specialty engineering design qualification. The regulations of specialty engineering design qualification in relation to environmental engineering are set out in the Standards for Environmental Engineering Specialty Design Qualification (環境工程專項設計資質標準) implemented by the Ministry of Construction (中華人民共和國建設部) in 2007. The Environmental Engineering Specialty Design Qualification is divided into Class A and Class B, where Class A has a higher requirement.

The requirements for obtaining the Environmental Engineering Specialty Design Qualification pursuant to the Standards for the Environmental Engineering Specialty Design Qualification are summarised as follows:

	Class A Qualification		Class B Qualification	
	Wastewater treatment	Pollution remediation	Wastewater treatment	Pollution remediation
Total number of professional personnel employed (<i>Note</i>)	23	18	14	10
Registered Capital	RMB3 million		RMB1 million	
Main engineer-in-charge's experience requirement	Bachelor degree holder or above; At least 5 year experience; Completed 2 large scale projects; possessing registered qualification (level 1) (註冊執業資格(限一級)) or senior professional title (高級職稱)		Bachelor degree holder or above; At least 5 year experience; Completed 2 medium scale projects; possessing registered qualification (level 1) (註冊執業資格(限一級)) or senior professional title (高級職稱)	
Experience requirements for professional personnel	Completed 1 large scale project or 2 medium scale project; possessing intermediate professional title (中級職稱)		Completed 1 medium scale project; possessing intermediate professional title (中級職稱)	
Entity's past project experience	Completed 1 large scale project or 3 medium scale project		N/A	
Permitted scope of work	No limitation on project scale		Medium or small scale project	

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Note: Qualified entities should employ the required number of professional and technical personnel with the specialist qualifications, professional standards and/or relevant project experiences, as stipulated in the Standards for Environmental Engineering Design Qualification.

The scope of work of a Class B qualification in environmental engineering specialty design relating to wastewater treatment includes small-medium scale project design in: (i) industrial wastewater treatment engineering design; (ii) municipal wastewater treatment engineering design; (iii) wastewater re-use engineering design; and (iv) special industry wastewater treatment engineering design. The classification of project scale in environmental engineering design is set out below:

Environmental Engineering Specialty Design Project Scale Classification relating to our Group

Category	Project Type	Unit	Large scale	Medium scale	Small scale
Wastewater treatment	Industrial wastewater treatment	tons/day (wastewater)	≥5,000	1,000–5,000	<1,000
		kilogram/day (COD capacity)	≥10,000	4,000–10,000	<4,000
	Municipal wastewater treatment	tons/day	≥20,000	8,000–20,000	<8,000
		Wastewater re-use	tons/day	≥10,000	2,000–10,000
Pollution remediation	pollution body, soil, mine remediation	investment amount: RMB'000	≥30,000	5,000–30,000	<5,000

Our Group currently has obtained the Environmental Engineering Specialty Design Qualification (Class B) (環保工程專項設計乙級資質) issued by Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房與城鄉建設廳), which shall expire on 13 May 2020. As confirmed by our PRC Legal Advisers, we have obtained the necessary qualifications to carry out our business in relation to project engineering design in wastewater treatment and pollution remediation projects.

Work Safety Licence

According to Regulation on Work Safety Licence (《安全生產許可證條例》) promulgated and implemented on 13 January 2004 and revised on 15 May 2013, 18 July 2013, 28 January 2014 and 29 July 2014, the PRC government applies a work safety licensing system to enterprises engaged in construction. Before starting a project, a construction enterprise shall apply for the work safety licence to the department in charge of the issuance and administration of work safety licences. No construction enterprises may engage in project activities without work safety licences.

The administrative departments of construction under the provincial governments, autonomous regions, or municipalities directly under the central government shall be in charge of issuance and administration of work safety licences for construction enterprises, and subject to the guidance and supervision of the administrative department of construction under the State Council. The valid period for a work safety licence shall be 3 years.

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As confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we have obtained necessary work safety licence in order to carry out our business operation.

LAWS AND REGULATIONS ON PROJECT OPERATION

Regulations on Bidding and Tender

The Bidding Law of the PRC (《中華人民共和國招標投標法》) (the “**Bidding Law**”), as adopted by the National People’s Congress Standing Committee of the PRC on 30 August 1999 and implemented on 1 January 2000 is the principal set of rules relating to tender processes in the PRC. According to the Bidding Law, certain construction work, including the survey, design, construction and supervision of the project, and the procurement of important equipment and materials relevant to the construction of the project shall be subject to tender and bidding if the project is (i) a large-scale infrastructure and public utilities project or having a bearing on social public interest and the safety of the general public; (ii) entirely or partially using state-owned funds or loans by the state; or (iii) using loans or aid-funds of international organisations or foreign governments.

The specific requirements and the scope and size of projects mandating a tender are further set out in the Provisions on Scope and Size of Construction Projects Requiring Tender (《工程建設項目招標範圍和規模標準規定》) (the “Tender Provisions”) issued and implemented by the State Development Planning Commission on 1 May 2000. For contracts with respect to the construction projects which fall into the scope as specified under the Bidding Law and meeting one of the following standards shall be subject to tender when the project owner selects the main contractor overseeing the project: (i) any construction contract of more than RMB2 million in value; (ii) any procurement contract of more than RMB1 million in value; (iii) any service contract of more than RMB0.5 million in value; or (iv) the total investments of the project is more than RMB30 million in value.

Pursuant to the Bidding Law of the PRC and the Regulation on the Implementation of the Bidding Law of the PRC (《中華人民共和國招標投標法實施條例》), invitations for tender are categorised as public tender and tender by invitation. Projects which are controlled or principally led by state-owned enterprises should be subject to public tender. Tender by invitation is allowed if such project is not suitable for public tender under circumstances where (i) only a small number of potential bidders are available due to project complexity, special technical requirements or environmental constraint; (ii) the cost of public tender would represent a substantial portion of the project’s total costs. Key projects involving tender by invitation are subject to the approval of the development and planning department of the State Council or the relevant provincial government, autonomous region or municipality.

The tender and bidding processes generally include five phases: invitation for tender, bid submission, bid opening, bid evaluation, and bid granting. When the winning bidder is selected, the bid inviter shall issue notifications to all bidders of the tender results. The tender winner may, according to the provisions of the contract or the consent of the owner, sub-contract parts of the task that are not vital or principal to the project.

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The bidder shall be capable of undertaking the bidding project and shall satisfy the qualifications as provided by state regulations or the bid-invitation documents concerning the qualifications of the bidder. The bidder should not collude with other bidders when submitting its bid price and quotations or prejudice the legitimate rights and interests of the tenderer or other bidders. Meanwhile, bidder is forbidden from offering bribes to the tenderers or members of the bid assessment committees. Further, a bidder should not submit his bid price below the cost for competition, and should not submit his bid in the name of other person or resort to any other false and deceptive method. If there are any of the acts that may affect the fairness of the bidding result, the tender results shall be voided and invalidated.

During the Track Record Period, our Group has obtained most of our projects through private invitation from our customers pursuant to their internal supplier/service provider selection policies and these projects were not subject to the tender and bidding processes as stipulated under and governed by the Bidding Law and Tender Provisions as mentioned above. Specifically, the projects undertaken by us for facilities operated by private enterprises would not fall into the project categories subject to tender and bidding process as set out in the Bidding Law and Tender Provisions. For our equipment projects related to municipal wastewater treatment facilities operated by BOT project companies, as we did not enter into contract directly with the project owners or participated as the main contractor, the part of works undertaken by us were not subject to tender and bidding process as set out in the Bidding Law and Tender Provisions.

As confirmed by our PRC Legal Advisers, having reviewed the material contracts entered into between our Group and our customers during the Track Record Period, none of the construction projects under these contracts shall be considered as being a construction project that is subject to the provisions of the Bidding Law and Tender Provisions. Further, as confirmed by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, our Group has complied in all material aspects with all the laws and regulations in relation to bidding and tender processes.

Environmental Protection

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) amended and promulgated on 24 April 2014 by the NPC Standing Committee and implemented on 1 January 2015, entities which caused environmental pollution and other public hazards shall adopt effective measures to prevent and control the pollution and harm done to the environment. The design, construction and commission of facilities for prevention and control of pollution shall be conducted concurrently with that of the main body of the construction project. No permission shall be granted to a construction project until its facilities for the prevention and control of pollution are examined and accepted by the competent administrative department of environmental protection.

As confirmed by our PRC Legal Advisers, we had not breached any laws and regulations in relation to environmental protection and we had not received any warning, complaint or penalty from relevant administrative regulatory organisations.

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Quality Management

The Regulation on the Quality Management of Construction Projects was adopted and promulgated on 10 January 2000 by the State Council. According to this Regulation, a construction project owner shall contract out its project to an eligible entity possessing the relevant qualification to undertake the project. Sub-contracting construction project to any entity without corresponding qualification constitutes illegal sub-contracting. Contractors which involve illegal sub-contracting are subject to fine, or may be ordered to suspend operation for rectification. Their qualification may be degraded, or in severe circumstance, be revoked.

In practice, we will check the qualification of our sub-contractors when we sub-contract our work under the construction project. As confirmed by our PRC Legal Advisers, all our major construction projects during the Track Record Period are in compliance in all material aspects with all the relevant laws and regulations.

OTHER LAWS AND REGULATIONS RELEVANT TO OUR GROUP IN THE PRC

Taxation

(i) Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”), which was promulgated on 16 March 2007 and with effect from 1 January 2008, and the Implementation Rules To the Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) (the “Implementation Rules”), which was promulgated on 6 December 2007 and with effect from 1 January 2008, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25%. Furthermore, resident enterprises, which refer to enterprises that are set up in accordance with the PRC law, or that are set up in accordance with the law of the foreign country (region) but with its actual administration institution in the PRC, shall pay enterprise income tax originating both within and outside the PRC. While non-resident enterprises that have set up institutions or premises in the PRC shall pay enterprise income tax, in relation to the income originating from the PRC and obtained by their institutions or establishments, and the income incurred outside the PRC but there is an actual relationship with the institutions or establishments set up by such enterprises. Where non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall pay enterprise income tax in relation to the income originating from the PRC.

Pursuant to the EIT Law and relevant regulations, entities which passed the appraisal of High and New Technology Enterprise and obtained the High and New Technology Enterprise Certificate (高新技術企業證書) may enjoy preferential income tax rate at 15%. Since we had been appraised as a “High and New Technology Enterprise” by the Science and Technology Bureau of Guangdong Province and relevant authorities in the PRC since 2013, we have enjoyed a 15 % enterprise income tax rate during the Track Record Period. Our current High and New Technology Enterprise certificate will expire on November 2015. We have submitted the renewal application in July 2015, which was pending the approval by competent authority as at the Latest Practicable Date.

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(ii) Business Tax

Business tax is applicable to all enterprises and individuals engaged in providing taxable services, transferring intangible assets or selling immovable properties in PRC. According to Provisional Regulations of the People's Republic of China on Business Tax (《中華人民共和國營業稅暫行條例》), construction companies currently are subject to a 3% Business Tax rate.

(iii) Value Added Tax

All enterprises and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of PRC should pay value-added tax ("PRC VAT"). According to Provisional Regulations of the People's Republic of China on PRC VAT (《中華人民共和國增值稅暫行條例》), our Group currently is subject to a 17% PRC VAT rate.

(iv) Withholding tax on dividends payable

Under the EIT Law and relevant regulations, a PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (which include enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business) to the extent that such dividends have their source within the PRC unless there is an applicable tax treaty between the PRC and the jurisdiction in which an overseas holder resides and which reduces or exempts the relevant tax. Similarly, any gain realised on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Pursuant to the Arrangements between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on 21 August 2006 and entered into force on 1 January 2007, when an enterprise in the PRC distributes dividends to Hong Kong residents who are eligible for receiving such dividends, the Hong Kong residents, if holding more than 25% equity interest in such enterprise of the PRC, are generally subject to a rate of 5% of the total dividends received. Furthermore, the SAT issued the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) on 20 February 2009, which, among other things, (i) requires the non-resident taxpayer or the withholding agent to provide a host of documentary evidencing that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty, and (ii) empowers the competent tax authorities with the discretion to adjust the preferential tax rate to which an offshore entity would otherwise be eligible if the main purpose of such offshore arrangement is to obtain a preferential tax treatment. Pursuant to the Measures for the Administration of Non-resident's Enjoyment of Treatment Under Taxation Agreement (Trial Implementation) (非居民享受稅收協定待遇管理辦法(試行)的通知), which were promulgated on 24 August 2009 by the SAT and became effective on 1 October 2009, a non-resident subject to taxation is required to obtain the approvals from the relevant tax authorities before it may enjoy a tax reduction or waiver under the dividend provision of a tax treaty.

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As confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we are in compliance in all material aspects with all the laws and regulations in relation to taxation in PRC.

Labour Protection

Pursuant to the PRC Labour Law (《中華人民共和國勞動法》) promulgated on 5 July 1994 and became effective on 1 January 1995 and amended on 27 August 2009 and the PRC Labour Contract Law (《中華人民共和國勞動合同法》) which was promulgated on 29 June 2007 and became effective on 1 January 2008 and which was further revised on 28 December 2012, if an employment relationship is established between an entity and its employees, written labour contracts shall be prepared and such contracts can only be terminated by payment or in accordance with relevant laws. The relevant laws also stipulate the maximum number of working hours per day and per week, respectively, and the requirements for entities to establish and develop systems for occupational safety and sanitation.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and took effect from 1 July 2011, employees shall participate in basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance schemes. Basic pension, basic medical insurance and unemployment insurance contributions shall be paid by both employers and employees while work-related injury insurance and maternity insurance contributions shall be solely undertaken by employers.

Pursuant to the Regulations on the Administration of Housing Fund (《住房公積金管理條例》), which were promulgated and became effective on 3 April 1999, as amended on 24 March 2002, PRC companies must register with the applicable housing fund management centre and establish a special housing fund account in an entrusted bank. Each of the PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage of the preceding year.

Based on the compliance certificates issued by the competent authorities and confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we have fully paid social insurance and housing fund for our employees and there is no breach of any laws and regulations in relation to labour protection.

Foreign Exchange Control

Regulations on Foreign Exchange Control of the PRC were promulgated by the State Council on 9 January 1996 and came into effect on 1 April 1996. It was subsequently revised on 14 January 1997 and 1 August 2008. According to this regulation, foreign currency payments under basic account items by domestic institutions, including payments for imports and exports of goods and services and payments of income and current transfers into and outside the PRC must be either paid with their own foreign currency with valid documentation or with foreign currency purchased from any financial institution engaged in foreign currency sale and settlement. Foreign currency income accounted for under basic account items may be retained or sold to financial institutions engaged in foreign currency sale and settlement in accordance with the relevant PRC laws and regulations. Foreign currency payments under capital account items include cross border transfers of capital, direct investments, securities investments, derivative products and loans, and must, in accordance with the SAFE regulations. For foreign-invested enterprises wound up in accordance with the law, funds denominated in RMB that belong to a foreign investor after liquidation and after payment of tax may be used to purchase foreign currency from any financial institution engaged in foreign exchange sale and settlement in order to remit the foreign currency outside of the PRC.

The Circular No. 37 (2014) — Issues relating to the Foreign Exchange Administration of Offshore Investment, Financing and Return Investment by Domestic Resident via Special Purpose Vehicles (匯發(2014) 37號 — 國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) was promulgated by the SAFE on 4 July 2014. According to this circular, a special purpose company shall refer to an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institutions or domestic resident individuals) for the purpose of investment and financing with the enterprise assets or interests it holds legally inside the PRC or overseas. Before injecting domestic and overseas legal assets or interests into their special purpose company, the domestic residents including domestic institutions and domestic resident individuals shall apply for foreign exchange registration of overseas investments with SAFE. Where the domestic resident fails to apply for relevant foreign exchange registration, the punishment may be imposed by the SAFE under the provisions of Regulations on Foreign Exchange Control of the PRC.

As confirmed by our PRC Legal Advisers, we have properly set up foreign exchange account and have completed all relevant foreign exchange registrations and there is no breach of any laws and regulations in relation to foreign exchange control.

Intellectual Property Rights

(i) Patents

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated on 12 March 1984 with the last amendment effective on 1 October 2009, patent protection is divided into three categories, namely, invention patent, utility patent and design patent. Invention patents are valid for twenty years from the date of application, while design patents and utility patents are valid for ten years respectively. Once an invention patent, utility patent or a design patent is granted, unless otherwise permitted by law, no individual or entities may exploit the patent without permission of the patentee. The patent application system in the PRC is different in many ways from that in other countries. The patent system in the PRC uses the “first to file” principle, which means when more than one person files for a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, the PRC requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of The PRC. Furthermore, patents issued in the PRC are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system. Although patent rights are national rights, the Patent Cooperation Treaty, of which the PRC is a signatory, allows an applicant in one country to seek patent protection for an invention in multiple member countries at the same time by filing an international patent application. However, the fact that a patent application is pending is not a guarantee that a patent will be granted. Furthermore, even if a patent application is granted, the scope of a patent may not be as broad as the applicant requested in the initial application.

(ii) Trademark

The PRC Trademark Law (《中華人民共和國商標法》) was promulgated in 1982 (later amended on 30 August 2013), and the PRC Trademark Implementing Regulations (《中華人民共和國商標法實施條例》) were promulgated on 3 August 2002 and amended on 29 April 2014. These laws and regulations provide the basic legal framework for the regulation of trademarks in the PRC. The trademark office is responsible for the registration and administration of trademarks throughout the country. Like patents, the PRC has adopted a “first-to-file” principle with respect to trademarks. The period of validity of a registered trademark is ten years from the date of registration; renewal is allowed thereafter and the period of validity of each renewal of registration is ten years. The State Administration for Industry and Commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law; where the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

PRC REGULATORY REQUIREMENTS FOR THE REORGANISATION

Compliance with the Circular 10

Under the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (“Circular 10”) in the PRC, which was issued jointly by six PRC governmental and regulatory agencies including MOFCOM, SAFE and the China Securities Regulatory Commission (中國證券監督管理委員會, the “CSRC”) on 8 August 2006, effective on 8 September 2006 and further amended on 22 June 2009 by the MOFCOM, a foreign investor is required to obtain necessary approvals when (i) it acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign invested enterprise, or subscribe for new equity in a domestic enterprise thereby converting it into a foreign invested enterprise; or (ii) it establishes a foreign-invested enterprise to purchase and operate the assets of a domestic enterprise, or to purchase the assets of domestic enterprise and injects those assets to a established foreign-invested enterprise.

Our PRC Legal Advisers confirmed that our Reorganisation (details of which are set out in the section headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus) have fully complied with the relevant approval and filing requirements prescribed under Circular 10 and have obtained all the necessary approvals and permits from relevant and competent PRC authorities. In respect of the steps undertaken for the Reorganisation, our PRC Legal Advisers advised that:

- (i) Circular 10 was not applicable to (a) the transfer of 1% equity interest in Guangzhou Great Water by Mr. Song to Mr. Xie; and (b) the acquisition of an aggregate of 10% equity interests in Guangzhou Great Water by Mr. Xie, Ms. Gong and Mr. Song from Woody Industrial Limited, on the basis that Guangzhou Great Water was a sino-foreign equity joint venture enterprise at the respective time thereof, and thus such transfer and acquisition did not involve any acquisition of equity interest in domestic non-foreign invested enterprises by foreign investors;
- (ii) Circular 10 was not applicable to (a) the establishment of Lintao EP by Mr. Xie, Ms. Gong and Mr. Song collectively by using their entire equity interests in Guangzhou Great Water as capital contribution; and (b) the establishment of Hongrun EP by Lintao EP by using its entire equity interests in Guangzhou Great Water as capital contribution, since they did not involve acquisition of equity interest in domestic non-foreign invested enterprises by foreign investors;
- (iii) the acquisition of 10% equity interests in Lintao EP by Woody Industrial Limited from Mr. Xie, Ms. Gong and Mr. Song (the “**10% Acquisition**”) was subject to the relevant approval and filing requirements set forth in Circular 10. Our PRC Legal Advisers confirmed that we have obtained necessary approvals and permits from all relevant and competent authorities. In addition, as confirmed by our PRC Legal Advisers, since Woody Industrial Limited was not a connected enterprise of Lintao EP prior to the 10% Acquisition, the 10% Acquisition did not constitute a connected acquisition as specified under Circular 10 requiring approval from MOFCOM;

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- (iv) Upon completion of the 10% Acquisition, Lintao EP also became a sino-foreign equity joint venture enterprise. Circular 10 was not applicable to (a) Great Water Hong Kong's acquisition of an aggregate of 90% equity interests in Lintao EP from Mr. Xie, Ms. Gong and Mr. Song; and (b) Great Water Hong Kong's acquisition of 10% equity interests in Lintao EP from Woody Industrial Limited, on the basis that such reorganisation steps did not involve acquisition of equity interest in domestic non-foreign invested enterprises by foreign investors.

As further stipulated in Circular 10, in the event the shareholder of a domestic PRC enterprise, for the purpose of an overseas listing, establishes an offshore special vehicle (an "SPV") and uses its equity as the means of payment to acquire his equity interest in this domestic PRC enterprise, the listing of such SPV on an overseas stock exchange shall be subject to approval of the CSRC. Having considered that each of Guangzhou Great Water and Lintao EP is a sino-foreign equity joint venture enterprise, our PRC Legal Advisers confirmed that our Listing does not require approval from the CSRC on the basis that our Listing does not fall into the above circumstance as specified under Circular 10.

Compliance with the Circular 37

On 4 July 2014, the SAFE issued Circular No. 37 (2014) — Issues Relating to the Foreign Exchange Administration of Offshore Investments, Financing and Return Investments by Domestic Residents via Special Purpose Vehicles (匯發(2014)37號 — 國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) ("Circular 37"). Circular 37 requires domestic residents of the PRC ("PRC Resident"), which includes overseas individuals who do not hold PRC legal identity documents but habitually reside in the PRC due to economic interests, to register with SAFE before the PRC Resident contributes assets or equity interests to an overseas SPV, which is established or controlled by the PRC Resident for the purpose of investment or financing. According to Circular 37, the registration should be completed within 10 working days upon receipt of all required application documents. Mr. Xie, Ms. Gong and Mr. Song being PRC Residents and also three of our Group's ultimate shareholders have completed the registration with the Guangzhou branch of SAFE pursuant to Circular 37 in 2015.

Compliance with Circular 698 and Circular 7

On 10 December 2009, the SAT issued the Notice on Strengthening the Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓企業所得稅管理的通知》) ("Circular 698"). Circular 698 became effective retroactively on 1 January 2008. The SAT also issued rules to provide clarification on such circular. On 3 February 2015, the SAT issued the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-PRC Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) ("Circular 7"), which abolished certain provisions of Circular 698 and provided comprehensive guidelines relating to, and also strengthened PRC tax authorities' scrutiny over, the indirect transfer of assets (including equity interests and immovable properties) of a PRC resident enterprise (the "PRC Taxable Assets") by a non-PRC resident enterprise.

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Circular 7 specifies that when a non-PRC resident enterprise transfers PRC Taxable Assets indirectly by disposing of its equity interests in an offshore enterprise directly or indirectly holding such PRC Taxable Assets, the PRC tax authorities may disregard the existence of such offshore enterprise, and deem the transaction as a direct transfer of PRC Taxable Assets and to be subject to the relevant PRC enterprise income tax if the relevant transfer is considered to have been conducted for the purpose of avoiding PRC enterprise income tax and without any reasonable commercial purpose.

According to Circular 7, the relevant indirect transfer should be considered on a case-by-case basis taking into account the entire arrangements in respect thereof when determining whether there is a reasonable commercial purpose in such transfer. Under Circular 7, the parties involved in the transaction may report such share transfer to the relevant PRC tax authority on a voluntary basis. However, such parties are obliged to provide necessary information and documents relating to the transaction upon request of the PRC tax authority.

Further to the above, as provided for in Clause 6 of Circular 7, an indirect transfer which satisfies all of the following conditions shall be deemed to have a reasonable commercial purpose, and thus will not be subject to the PRC enterprise income tax under Circular 7:

- (i) the transferor and the transferee in the relevant indirect transfer (the “**Relevant Transfer**”) are related enterprises, where:
 - (a) the transferor directly or indirectly owns 80% or more of the shares in the transferee;
 - (b) the transferee directly or indirectly owns 80% or more of the shares in the transferor; or
 - (c) 80% or more of the shares of both the transferor and the transferees are directly or indirectly owned by the same shareholder.

(if more than 50% of the value of the equity interest of the offshore enterprise holding the PRC Taxable Assets is derived directly or indirectly from immovable assets located in the PRC, the ownership requirement mentioned above will be increased to 100%);
- (ii) after the Relevant Transfer, the PRC enterprise income tax payable on any potential subsequent indirect transfer of the same PRC Taxable Assets would not be lower than the PRC enterprise income tax that could have been payable on a similar indirect transfer if the Relevant Transfer did not take place; and
- (iii) all the consideration paid by the transferee for the Relevant Transfer must consist of its own shares, or shares of a related enterprise with which the transferee has a controlling relationship (excluding shares of listed companies).

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In respect of the Reorganisation, our PRC Legal Advisers are of the opinion that our Reorganisation was not subject to the relevant PRC enterprise income tax as stipulated under Circular 698 and Circular 7 on the following basis:

- (i) save for our Company's acquisition of 10% equity interests in Great Water Hong Kong from Woody Industrial Limited by issuing 22,500,000 Shares to Woody Industrial Limited on 2 June 2015 ("**GWHK 10% Acquisition**", as further discussed in (ii) below), all other steps undertaken in the Reorganisation did not involve any non-PRC resident enterprise's direct or indirect disposal of equity interest in an offshore enterprise holding PRC Taxable Assets as specified in Circular 7; and
- (ii) Woody Industrial Limited received 10% equity interest in Great Water Hong Kong as consideration for transferring its 10% equity interest in Lintao EP to Great Water Hong Kong on 25 May 2015 ("**Lintao 10% Acquisition**"). In respect of GWHK 10% Acquisition, the underlying PRC Taxable Assets involved was also the 10% equity interest in Lintao EP (which was directly held by Great Water Hong Kong subsequent to the Lintao 10% Acquisition). The consideration for GWHK 10% Acquisition was settled by issuance of 10% equity shares by our Company to Woody Industrial Limited. Upon completion of the GWHK 10% Acquisition and the Lintao 10% Acquisition, Lintao EP became an indirectly wholly-owned subsidiary of our Company, whilst Woody Industrial Limited's effective equity interest in Lintao EP, through its 10% shareholding in our Company after the Reorganisation, remained the same at 10%. Our PRC Legal Advisers are of the view that Woody Industrial Limited would not be liable to pay any PRC enterprise income tax in respect of GWHK 10% Acquisition under the relevant provisions of Circular 698 and Circular 7 because there was no taxable gains derived by Woody Industrial Limited from the GWHK 10% Acquisition, having considered that the time lapse between the GWHK 10% Acquisition and the Lintao 10% Acquisition was approximately one week apart and the value of considerations for both acquisitions were identical (equivalent to 10% registered capital of Lintao EP).

Circular 7 contains certain provisions to exempt indirect transfer of PRC Taxable Assets from being reclassified as direct transfer under circumstances, including (i) when a non-PRC resident enterprise derives income from dealings in shares of a listed offshore company holding PRC Taxable Assets in open market; and (ii) when the income derived by a non-PRC resident enterprise from the transfer of PRC Taxable Assets would have been exempted from enterprise income tax in the PRC under applicable tax treaty or arrangement even if the enterprise directly holds and transfers such PRC Taxable Assets. Based on the above provisions, our PRC Legal Advisers are of the view that the dealing in our Shares by our Shareholders which are non-PRC resident enterprises (including public Shareholders after the Listing) in the open market such as the Stock Exchange will not be subject to the PRC enterprise income tax under Circular 7. On the other hand, due to the ambiguity in the provisions of Circular 698 and Circular 7 in respect of off-market transfer of shares of listed offshore company, our PRC Legal Advisers advised that the PRC tax authorities may determine that the tax exposure and reporting obligations under Circular 698 or Circular 7 are applicable to non-PRC resident investors/Shareholders who acquire or dispose of our Shares outside of the open market or through other off-market arrangements if any of such transaction is deemed by the PRC tax authorities to be without any reasonable commercial purpose.

LAWS AND REGULATIONS

VIETNAMESE LAWS AND REGULATIONS

Set out below is the Vietnamese laws and regulations that are relevant to our Group's operation and business in Vietnam.

LAWS AND REGULATIONS ON LICENCES, PERMITS AND CERTIFICATES

For foreign entities

(i) *Foreign Contractor Permit*

According to the Item 1, Article No. 3 of the Regulation on Management of Operations of Foreign Contractors in the construction domain in Vietnam, promulgated together with Prime Minister's Decision No. 87/2004/QD-TTg of 19 May 2004, foreign entities are required to obtain the Foreign Contractor Permit in order to carry out specific engineering, procurement and construction projects which they have been engaged to perform. In order to obtain the Foreign Contractor Permit, the foreign entity applicant must satisfy the following requirements:

- Having won the bidding or having been selected for contracting;
- Having signed the contract with its customer as a main-contractor;
- Entering into partnership with a Vietnamese contractor or having employed Vietnamese sub-contractors;
- Committing to fully observing the Vietnamese law provisions concerning contracting activities in Vietnam; and
- Obtaining the Foreign Contractor Permit before the project is completed.

In December 2013, Guangzhou Great Water was engaged by Pacific Crystal Textiles Limited (“**Pacific Crystal**”), a subsidiary of our existing customer, Pacific (Panyu) Textiles Limited (互太(番禺)紡織印染有限公司), to be the EPC contractor to build a wastewater treatment plant to service its textile factory in Vietnam (“**Vietnamese Project**”) and an in-principle contract was entered into between Guangzhou Great Water and Pacific Crystal for the engagement (the “**Main Contract**”). In order to properly manage the Vietnamese Project, our Vietnamese Subsidiary was set up and our staff members in the Vietnamese Subsidiary are responsible for managing and monitoring the project on-site. As supplement to the Main Contract, (i) our Vietnamese Subsidiary entered into a construction agreement (the “**VS Construction Agreement**”); and (ii) Guangzhou Great Water entered into an equipment procurement agreement (the “**GW Equipment Agreement**”), with Pacific Crystal, to define the detailed scope of the respective work for the entire Vietnamese Project.

Under the VS Construction Agreement, our Vietnamese Subsidiary is responsible for building a wastewater treatment plant, equipment installation, system testing and examination. Our Vietnamese Subsidiary has further sub-contracted the relevant construction work to China Construction (S.E.A) Corporation Ltd, a qualified sub-contractor under the Vietnamese law. Meanwhile, under the GW Equipment Agreement, Guangzhou Great Water is responsible for the procurement of equipment and

LAWS AND REGULATIONS

machinery from the PRC and the delivery of such equipment and machinery to the border checkpoint in Vietnam. Pacific Crystal, upon receipt of the equipment and machinery at the border checkpoint, is then responsible for the customs declaration, payment of import duties and the transportation of the equipment and machinery from the border checkpoint to the work site.

Given the above arrangement, Guangzhou Great Water would operate as a foreign contractor which is subject to the requirement for obtaining the Foreign Contractor Permit. As advised by our Vietnamese Legal Advisers, the Foreign Contractor Permit must be obtained before completion of the relevant project. However, under the Vietnamese law, there is no time limit within which a foreign contractor must obtain the Foreign Contractor Permit after having won the bidding, having been selected for contracting or having signed contract with customer as a main contractor. We have obtained the Foreign Contractor Permit in respect of the Vietnamese Project in October 2015.

For Vietnamese entities

(i) Investment Certificate

Under the Law on Investment in Vietnam, every foreign investment is required to be licensed by an appropriate authority. Such licence constitutes the legal permission to invest in Vietnam and serves as the business registration certificate of the company into which a foreign entity invests. Since our Vietnamese Subsidiary was established by Guangzhou Great Water, our operating entity in PRC, and falls within the category of “foreign invested company (FIC)”, it is required to obtain an investment certificate in order to carry out its business in Vietnam.

Our Vietnamese Subsidiary has obtained an investment certificate issued by the People’s Committee of Hanoi City with the business scope including: (i) management consultant services concerning water treatment and environment; (ii) engineering and integrated engineering consultant services for water treatment projects and environmental projects; (iii) construction of industrial, engineering and civil work; (iv) assembly and installation work; and (v) water plumbing and drain laying work.

As confirmed by our Vietnamese Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, our Vietnamese Subsidiary has obtained valid and effective investment certificate. In addition, our Vietnamese Legal Advisers further confirmed that the operation our Vietnamese Subsidiary has carried out is in line with the scope of investment certificate.

(ii) Seal Sample Certificate

Under the relevant Vietnamese law, the seal of an enterprise certifies the validity and authenticity of its document and of the act to which it refers. An enterprise must obtain a seal sample certificate in order to sign and stamp its business transaction documents before they could be considered as legally valid.

As confirmed by our Vietnamese Legal Advisers, our Vietnamese Subsidiary has obtained a valid seal sample certificate issued by Hanoi Public Security Department.

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(iii) Tax Registration Certificate

All enterprises and individuals earning income in Vietnam shall obtain a tax registration certificate for tax paying purposes. As confirmed by our Vietnamese Legal Advisers, the Vietnamese Subsidiary has duly obtained the tax registration certificate No. 0106342388 dated 11 December 2013 issued by the Tax Department of Hanoi City in accordance with the Vietnamese law.

LAWS AND REGULATION ON OPERATION

Employment

Companies in Vietnam are required to make compulsory social and health insurance contributions for their employees who have a labour contract for a term of three months or more, or for an indefinite term. Since 1 January 2015, companies in Vietnam are also required to make compulsory unemployment insurance contributions for its employees.

As confirmed by our Vietnamese Legal Advisers, our Vietnamese Subsidiary has fully paid the social and health insurance, as well as the unemployment insurance contributions for its employees.

Taxation

Our Group's operation in Vietnam is mainly subject to the following principal taxes: (i) foreign contractor withholding tax for Guangzhou Great Water as a foreign contractor; (ii) corporate income tax, value added tax and personal income tax in relation to Vietnamese and foreign employees for our Vietnamese Subsidiary as a foreign-invested company established in Vietnam.

For foreign entities

(i) Foreign Contractor Withholding Tax

In Vietnam, a foreign contractor withholding tax (the "**Foreign Contractor Withholding Tax**") applies to payment of interest, royalties, licence fees, foreign contractors' fees, cross-border leases, insurance/reinsurance, airline and express delivery charges to a foreign entity for goods supplied or services rendered within Vietnam. Foreign Contractor Withholding Tax comprises a combination of value-added tax element and a corporate income tax element.

(a) Corporate Income Tax ("CIT")

Foreign entities are subject to a CIT ranging from 1% to 10%, depending on the type of goods supplied or services rendered, for the revenue payment derived from Vietnam under the contract entered into with a Vietnamese entity for goods supplied or services rendered within Vietnam.

LAWS AND REGULATIONS

(b) Value Added Tax (“VAT”)

Foreign entities are subject to a VAT ranging from 2% to 5%, depending on the type of goods supplied or services rendered, for the revenue payment derived from Vietnam under the contract entered into with a Vietnamese entity for goods supplied or services rendered within Vietnam.

Pursuant to Circular No. 103/2014/TT-BTC of the Ministry of Finance dated 6 August 2014 Guiding the Fulfillment of Tax Liability of Foreign Entities Doing Business in Vietnam or Earning Income in Vietnam (“**Circular No. 103/2014/TT-BTC**”), Foreign Contractor Withholding Tax shall be applicable to foreign entities doing business in Vietnam or earning income in Vietnam. In addition, under the withholding mechanism the Vietnamese counter-party shall, before making payment to the foreign entity in accordance with the relevant contract, withhold an amount equivalent to the Foreign Contractor Withholding Tax, which shall then be used to settle such withholding tax for and on behalf of the foreign entity.

For the Vietnamese Project, our Vietnamese Legal Advisers confirmed that no Foreign Contractor Withholding Tax shall be payable in respect of the Main Contract entered into between Guangzhou Great Water and Pacific Crystal, on the basis that the Main Contract was in-principle by nature, and no actual income was generated for Guangzhou Great Water from such contract given that the detailed scope of works for the entire Vietnamese Project was defined in the GW Equipment Agreement and VS Construction Agreement.

In respect of the GW Equipment Agreement entered into between Guangzhou Great Water and Pacific Crystal (details of which are discussed under the paragraph headed “Laws and Regulation on Licences, Permits and Certificates — For Foreign Entities — (i) Foreign Contractor Permit” above), our Vietnamese Legal Advisers confirmed that, pursuant to the interpretation set out in Circular No. 103/2014/TT-BTC, as the procurement and delivery of equipment and machinery to the border checkpoint in Vietnam provided by Guangzhou Great Water under the GW Equipment Agreement is extraterritorial, Guangzhou Great Water is not considered as doing business in or earning income in the territory of Vietnam, and hence the revenue derived under the GW Equipment Agreement is not subject to Foreign Contractor Withholding Tax. On the other hand, Pacific Crystal is liable for the customs declaration and the payment of import duties in respect of the relevant equipment and machinery.

In respect of the VS Construction Agreement, as it was entered into by our Vietnamese Subsidiary which is not a foreign entity, the revenue derived thereunder is also not subject to Foreign Contractor Withholding Tax.

For Vietnamese entities

(a) Corporate Income Tax (“CIT”)

Foreign-invested companies are liable to pay CIT on their taxable profits at rates ranging from 20% to 22%. Under the terms of the existing investment certificate of our Vietnamese Subsidiary, our Vietnamese Subsidiary is subject to 22% CIT from 1 January 2014 to 31 December 2015. If its annual turnover does not exceed VND20 billion in the following year, our Vietnamese Subsidiary shall be subject to 20% CIT from 1 January 2016.

LAWS AND REGULATIONS

(b) Value Added Tax (“VAT”)

Goods and services used for manufacturing, business and consumption in Vietnam are subject to VAT, except for the non-taxable objects prescribed under the applicable laws in relation to VAT. VAT taxpayers are organisations and individuals engaging in manufacturing and conducting business in value added taxable goods and services, and organisations and individuals importing value added taxable goods. The standard rate of VAT is 10%, although reduced rates of 5% are applied to certain goods and services. VAT is calculated based on taxable prices and tax rates.

As advised by our Vietnamese Legal Advisers, our Vietnamese Subsidiary has no outstanding VAT tax issue with the competent tax authority.

(c) Personal Income Tax (“PIT”)

Both Vietnamese and foreign employees of Vietnamese entities are subject to PIT. PIT is imposed on a progressive basis pursuant to the law on PIT passed by the National Assembly of Vietnam in 2007.

As confirmed by our Vietnamese Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, our Vietnamese Subsidiary:

- (i) has obtained a tax file number in accordance with the laws and regulations of Vietnam;
- (ii) has complied with periodic and annual tax filing requirements under Vietnamese law;
- (iii) has not incurred CIT payment obligations since its incorporation;
- (iv) is not subject to any tax issue relating to PIT; and
- (v) has complied with all other applicable tax regulations in Vietnam.

Foreign Exchange Control

According to Ordinance on Foreign Exchange No.28/2005/PL-UBTVQH11 promulgated by the Standing Committee of the National Assembly of Vietnam on 13 December 2005 as amended and supplemented by Ordinance on amendment and supplementation of Ordinance on Foreign Exchange No. 06/2013/PL-UBTVQH13 dated 18 March 2013, there is no restriction for equity holders to remit profits, invested capital, or dividend from our Vietnamese Subsidiary as long as our Vietnamese Subsidiary has fulfilled its tax obligation under Vietnamese law. Capital accounts opened with the licensed banks located in Vietnam are required for remittance purpose. As confirmed by our Vietnamese Legal Advisers, our Vietnamese Subsidiary has duly opened its capital accounts.

HISTORY, REORGANISATION AND GROUP STRUCTURE

OUR HISTORY, DEVELOPMENT AND REORGANISATION

Background

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015 and is the holding company of our Group. Our history can be traced back to August 2001 when Guangzhou Great Water (formerly known as 廣州中科建禹水處理技術有限公司 (Guangzhou Great Water Treatment Co., Ltd.) until December 2012), our principal operating subsidiary, was incorporated in the PRC with a registered capital of RMB1 million and owned as to 10% by Mr. Xie, our lead founder, executive Director, chairman and chief executive officer, and an aggregate of 90% was owned by 9 other Independent Third Parties (the “**Initial Shareholders**”). For further details on the corporate development of our Group, please refer to the paragraph headed “Our corporate development” below.

Having accumulated years of experience in the drinking water treatment projects and in view of the foreseeable growing prospects of the wastewater treatment industry in the PRC, our Group has expanded our drinking water treatment engineering business into wastewater treatment engineering business in 2004. With our in-depth knowledge on the performance data relating to various technologies treating different composition of contaminants in the wastewater, we have further expanded our business into other environmental protection areas such as flue gas treatment project in 2013, and soil remediation project in 2014.

Our key business milestones

Set out below is a summary of the key achievements and business milestones of our Group since establishment:

Year	Event
2001	Guangzhou Great Water was established in August 2001
2002	We concluded our first EPC project for construction of a drinking water facility in Shenzhen
2003–2014	We were recognised by the State Administration for Industry and Commerce of Guangzhou as a “Guangdong Province Contract Abiding & Creditable Enterprise” (廣東省守合同重信用企業) for 11 consecutive years
2003	Our first O&M project for a drinking water supply station was put into operation for an electronic company in Guangzhou
2004	We entered into industrial wastewater treatment engineering services market by undertaking an engineering project for a company in Huizhou Guangzhou Great Water was recognised as a High and New Technology Enterprise in Guangzhou (高新技術企業認定證書)
2006	Guangzhou Great Water purchased a piece of land from Guangzhou Municipal Land Resources and Housing Administrative Bureau (廣州市國土資源及房屋管理局) to build our head office and headquarters

HISTORY, REORGANISATION AND GROUP STRUCTURE

Year	Event
2007	Guangzhou Great Water was awarded Industrial Wastewater Operation Qualification (Class B) (工業廢水運營資質乙級) for O&M project by the Ministry of Environmental Protection of the PRC which is not a mandatory qualification for our operation
2009	Guangzhou Great Water was awarded Environmental Engineering Specialty Design Qualification (Class B) (環境工程專項設計乙級資質) by Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳)
2010	<p>We concluded a contract for our first EPC project for industrial wastewater treatment facility in Panyu with treatment volume of over 30,000 tons per day — Pacific Textiles (Panyu) Co. Phase II Reverse Osmosis Project (互太(番禺)紡織印染有限公司二期反滲透項目)</p> <p>We were awarded the Guangdong Province Environmental Protection Industry Innovative Technology Award (廣東省環保產業技術創新獎) by the China Association of Environmental Protection Industry</p> <p>We formally moved into our newly constructed office building, which provided us with the necessary space to set up the laboratory facilities for carrying out pilot runs and R&D work on treatment technologies. More importantly, we believe having our own office building raised the confidence level of customers towards us, which also helped our business development</p>
2013	<p>We were awarded the Environmental Engineering Professional Contractor (Level 3) (環保工程專業承包三級資質) by Guangzhou Housing and Urban-Rural Construction Committee (廣州市城鄉建設委員會)</p> <p>We were awarded the Certificate of Enterprise of Good Faith and Credit (Grade A) (誠信企業(A級)證書) by the Human Resources and Social Security Bureau of Luogang District, Guangzhou (廣州市蘿崗區人力資源和社會保障局)</p> <p>We established our Vietnamese Subsidiary</p> <p>Our Group entered into our first EPC contract in Vietnam</p>
2014	We commenced our first soil remediation project for a state-owned environmental protection company on a piece of contaminated land in Guangzhou that will undergo property development
May 2015	We successfully developed 13 patented techniques such as novel composite circulating high-efficiency biological reaction sewage treatment system (一種複合循環高效生物反應污水處理系統)

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our business performance prior to the Track Record Period

During the period from 2001 to 2004, we primarily focused on drinking water treatment projects which were relatively small-scale projects with low gross profits. In 2003, we commenced providing O&M services for a drinking water supply station in Guangzhou. Later in 2004, we began to expand our business scope to industrial wastewater treatment by reaching out potential customers in various industries in Guangdong Province. However, due to our limited capital base and lack of track record in wastewater treatment business, we were unable to secure sizeable projects and sustain stable revenue for our business operation in the subsequent years. During 2007 to 2011, our Group also engaged in the sale of environmental protection-related consumables so as to widen our revenue stream. However, without our own manufacturing facility for such consumables and having been subject to cost increments from suppliers, our Group decided to exit this business and focus on our wastewater and drinking water businesses thereafter.

In 2010, our Group moved into our newly constructed office building, which marked a new stage of our business operation. Not only did we have the office space to set up our own laboratory facilities, we also believed that by having our own office building, customers became more confident in us as a preferred wastewater treatment engineering service provider. We had since then devoted more time, efforts and resources to enhance our operational efficiency and utilised our own laboratory facilities to develop and strengthen our in-house expertise and capabilities in carrying out pilot runs and R&D works on wastewater treatment technologies.

Recognising the growth potential in the wastewater treatment industry in the PRC driven by the increasingly stringent regulatory requirements on environmental protection and favourable policies towards environmental protection industries in the PRC, Mr. Xie invited Ms. Gong and Mr. Song to join Guangzhou Great Water as shareholders in mid-2012 to support our business growth. The additional capital contribution by these shareholders provided necessary funding for our working capital which facilitated our participation in more sizeable industrial wastewater treatment projects thereafter.

With years of experience in the wastewater and drinking water treatment market in the PRC, we have built up our reputation through customers' satisfaction and proven track record, which have helped increase our opportunities and abilities to secure project tenders. In 2012, we have completed the testing and verification of our novel composite circulating high-efficiency biological reaction sewage treatment system, and have successfully registered a patent for this wastewater treatment-related technology in 2013. We have first deployed this technology in our Yihai Kerry Wastewater Treatment Project (益海嘉里污水處理項目), which has been an important step forward in further developing our wastewater treatment business and enhancing our financial performance. We have subsequently secured more sizeable projects and deployed this technology in three EPC projects and six equipment projects during the Track Record Period, with an aggregate contract value of RMB188.9 million. For further details on our financial performance during the Track Record Period, please refer to the section headed "Financial Information — Principal Components of Results of Operations" in this prospectus.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our corporate development

The following describes the corporate development of our Company and our subsidiaries:

Our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015, with an authorised share capital of HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each. Our Company is an investment holding company. On 25 March 2015, one Share was allotted and issued to each of Oceanic Expert, Waterman Global and Great Time for cash at par. Please refer to the paragraph headed “Reorganisation” of this section below for details.

The name of our Company was changed from “Great Water EP Holdings Limited” to our present name “Great Water Holdings Limited” on 17 November 2015.

Guangzhou Great Water

Guangzhou Great Water was incorporated in the PRC on 2 August 2001 as a limited liability company with an initial registered capital of RMB1,000,000. It is principally engaged in the wastewater treatment engineering and installation services, environmental protection engineering and construction and provision of engineering and technical advisory services. Prior to the establishment of Guangzhou Great Water, Mr. Xie has accumulated years of working and managerial experience in the natural gas business during his tenure of services at 廣州陽光燃氣發展有限公司 (Guangzhou Sunshine Gas Development Co., Ltd.) for around six years and built up connections with the government officials working in the public utilities sectors and professionals who were experienced and knowledgeable in the public utilities sectors. In the late 1990s, Mr. Xie identified vast business opportunities and recognised the prospects of the water treatment industry in the PRC. He thus decided to explore business opportunities in undertaking drinking water treatment projects in Guangdong Province and eventually formed Guangzhou Great Water in 2001. For details of Mr. Xie’s experience, please refer to the paragraph headed “Directors, Senior Management and Staff — Directors” of this prospectus. The table below sets out the shareholding structure of Guangzhou Great Water and the respective equity contribution amounts of Mr. Xie and the Initial Shareholders immediately after its establishment:

Shareholder	Shareholding %	Corresponding contribution amount to the registered capital RMB
深圳市建博信實業有限公司 (Shenzhen City Jian Bo Xin Industrial Corporation Limited) (“ Jian Bo Xin ”)	20%	200,000
Ms. Feng Li Yun (馮麗雲女士)	20%	200,000
廣州經濟開發區南方工程公司 (Guangzhou Economic and Technological Development Zone Nan Fang Construction Co., Ltd.) (“ Nan Fang Construction ”) ^(Note)	15%	150,000
Mr. Xie	10%	100,000

HISTORY, REORGANISATION AND GROUP STRUCTURE

Shareholder	Shareholding %	Corresponding contribution amount to the registered capital RMB
廣州中科廣化高新技術開發總公司 (Guangzhou Zhongke Guanghua High Technology Development Co., Ltd.) (“Zhongke Guanghua”)	10%	100,000
Mr. Su Hong (蘇洪先生) ^(Note)	5%	50,000
Mr. Wa Xiang Long (瓦祥龍先生) ^(Note)	5%	50,000
Mr. Dai Xue Feng (戴雪峰先生) ^(Note)	5%	50,000
Mr. Jin Li Jiang (金立江先生) ^(Note)	5%	50,000
Mr. Hui Dong Cheng (惠東成先生) ^(Note)	5%	50,000
Total	100%	1,000,000

Note: Mr. Su Hong, Mr. Wa Xiang Long, Mr. Dai Xue Feng, Mr. Jin Li Jiang and Mr. Hui Dong Cheng were the employees of Nan Fang Construction, which was a state-owned enterprise at that time.

Prior to the establishment of Guangzhou Great Water, Mr. Xie considered that it is vital for Guangzhou Great Water to strengthen its capital base and technical know-how and he thus invited various professional personnel/corporations in 廣州經濟技術開發區 (Guangzhou Economic and Technological Development Zone) with either capital, knowledge, expertise and/or established business networks to join him at the early stage of establishment, in particular, (i) Nan Fang Construction and its employees had established business networks given they are acquainted with enterprises located in or around Guangzhou Economic and Technological Development Zone in relation to their provision of construction works; and (ii) Zhongke Guanghua had the relevant knowledge, expertise and technologies which paved the way for Guangzhou Great Water to enter into the water treatment industry. Mr. Xie has become acquainted with Jian Bo Xin, Zhongke Guanghua, Ms. Feng Li Yun and Nan Fang Construction through his working experience in 廣州陽光燃氣發展有限公司 (Guangzhou Sunshine Gas Development Co., Ltd.). Mr. Xie and the Initial Shareholders funded their contribution to the initial registered capital of Guangzhou Great Water primarily with their own financial resources. Such registered capital was fully paid up.

In March 2003, Jian Bo Xin, Nan Fang Construction and its five employees transferred an aggregate of 60% equity interests in Guangzhou Great Water to Mr. Xie given that the implementation of no. 14 of Article 53 of the Civil Servant Law of the PRC which stipulates that a civil servant is not allowed to undertake or participate in any profit-making activity or hold a concurrent post in an enterprise or any other profit-making organisation. Such transfer was made at a consideration of RMB600,000, which was determined with reference to the registered capital of Guangzhou Great Water at that time. After the said transfer, Guangzhou Great Water was owned as to 70% by Mr. Xie, 20% by Ms. Feng and 10% by Zhong Ke Guang Hua.

HISTORY, REORGANISATION AND GROUP STRUCTURE

In order to fund our expansion to the wastewater treatment engineering business, the registered capital of Guangzhou Great Water was increased from RMB1 million to RMB5 million on 15 October 2003 and further increased from RMB5 million to RMB10 million on 18 October 2004, with the increase in registered capital being contributed by the then shareholders of Guangzhou Great Water with reference to their respective shareholding in Guangzhou Great Water.

As a result of a series of equity transfers since October 2003 during which Mr. Xie remained as a controlling shareholder with more than 50% equity interest in Guangzhou Great Water, as at April 2012, Guangzhou Great Water was owned as to 52% by Mr. Xie and as to 48% by five other Independent Third Parties.

In April 2012, Mr. Xie recognised the growth potential in the wastewater treatment industry in the PRC given the increasingly stringent regulatory requirements in respect of environmental protection and the favourable policies towards the environmental protection industries. Mr. Xie intended to procure funding for the future potential business opportunities from the existing shareholders to support our business growth. However, the then five shareholders shared a different view on the future business development of Guangzhou Great Water. Subsequently, Mr. Xie acquired the remaining 48% equity interest in Guangzhou Great Water from the other five shareholders at the total consideration of RMB4.8 million (which was determined with reference to the registered share capital of Guangzhou Great Water at that time) and became the sole shareholder of Guangzhou Great Water upon completion of the said share transfers in around June 2012. At the same time, Mr. Xie sought funding from potential investors by inviting Ms. Gong and Mr. Song to join Guangzhou Great Water to support the future growth of Guangzhou Great Water. Ms. Gong had known Mr. Xie through her personal acquaintance since 2011 and she decided to invest in Guangzhou Great Water in view of her understanding of our operations and market position and seeing the growth potential of our Group. The funds for Ms. Gong's investment in our Group were from her family members and own investments. On the other hand, Mr. Song had known Mr. Xie since 2011 through his business acquaintance with Tongji University. In view of Mr. Song's knowledge and business connections in the construction and engineering field, Mr. Xie invited him to join our Group and Mr. Song expressed his interest in investing in our business in around June 2012. The funds for Mr. Song's investment in our Group were from his family businesses. On 12 July 2012, Mr. Xie transferred his 29% and 20% equity interests in Guangzhou Great Water to each of Ms. Gong and Mr. Song at a consideration of RMB2.9 million and RMB2 million, respectively, which was determined with reference to the then registered capital of Guangzhou Great Water. Upon the said transfers, Guangzhou Great Water was owned as to 51% by Mr. Xie, 29% by Ms. Gong and 20% by Mr. Song, respectively.

To raise further capital for funding future growth and expansion, the registered capital of Guangzhou Great Water was increased from RMB10 million to RMB30 million on 24 October 2012, of which RMB8.1 million, RMB7.042 million and RMB4.858 million was contributed by Mr. Xie, Ms. Gong and Mr. Song, respectively. Upon completion of such capital increase, Guangzhou Great Water was owned as to 44% by Mr. Xie, 33.14% by Ms. Gong, and 22.86% by Mr. Song, respectively.

On 17 October 2014, Woody Industrial Limited contributed RMB4,070,071 to Guangzhou Great Water, of which RMB3,333,300 was credited to the registered capital of Guangzhou Great Water, and the remaining RMB736,771 was credited to its capital reserve. As such, the registered capital of Guangzhou Great Water was increased from RMB30,000,000 to RMB33,333,300. Upon completion of

HISTORY, REORGANISATION AND GROUP STRUCTURE

such capital increase, Guangzhou Great Water was owned as to 39.6% by Mr. Xie, 29.83% by Ms. Gong, 20.57% by Mr. Song and 10% by Woody Industrial Limited, respectively, and was converted to a sino-foreign equity joint venture enterprise.

Our PRC Legal Advisers have confirmed that all approvals have been obtained from the relevant PRC government authorities regarding the aforesaid equity transfers and capital increases of Guangzhou Great Water.

Please refer to the paragraph headed “Reorganisation” below of this section for further corporate development of Guangzhou Great Water.

Great Water Hong Kong

Great Water Hong Kong was incorporated as a limited company in Hong Kong on 10 March 2015 and is a direct wholly-owned subsidiary of our Company. It was incorporated for the purpose of implementing the Reorganisation and investment holding.

Lintao EP

Lintao EP was incorporated in the PRC on 28 April 2015 as a limited liability company with a registered capital of RMB48,000,000. Its scope of business covers provision of wastewater treatment engineering services.

Hongrun EP

Hongrun EP was incorporated in the PRC on 7 May 2015 as a limited liability company with a registered capital of RMB48,000,000. Its scope of business covers provision of wastewater treatment engineering services.

Vietnamese Subsidiary

The Vietnamese Subsidiary was established as a limited liability company in Vietnam on 22 August 2013 and is an indirect wholly-owned subsidiary of our Company. Its principal business is the provision of management consultation services in field of wastewater and environment treatment as well as engineering services and integrated engineering services in respect of the wastewater and environmental treatment business.

Deed of Concert Parties

As shown in the shareholding structure of our Group immediately prior to the Reorganisation, Mr. Xie, Ms. Gong and Mr. Song were respectively interested in, and entitled to exercise the voting rights attaching to, the entire equity interests of Guangzhou Great Water and, through Guangzhou Great Water, our Vietnamese Subsidiary.

Immediately after completion of the Reorganisation, the Company has become the ultimate holding company of our Group. Immediately after the Reorganisation, Mr. Xie, through Perfect Wave and Oceanic Expert, Ms. Gong, through Thinker Global and Waterman Global, and Mr. Song, through

HISTORY, REORGANISATION AND GROUP STRUCTURE

Topman Ventures and Great Time, were respectively interested in and entitled to exercise voting control over 90% of the issued Shares of the Company. The Company in turn through Great Water Hong Kong, Lintao EP and Hongrun EP was indirectly interested in the entire equity interests of Guangzhou Great Water.

Pursuant to a deed (the “**Deed of Concert Parties**”) dated 1 March 2015 and entered into among Mr. Xie, Ms. Gong and Mr. Song, each of them agreed, confirmed and ratified, among other things, during a period from 11 June 2012 to the date of the Deed of Concert Parties, each of them has been cooperating with each other and acting in concert (for the purpose of the Takeovers Code), with an aim to achieve consensus and concerted action on all major affairs relating to Guangzhou Great Water. Each of Mr. Xie, Ms. Gong and Mr. Song further agreed, confirmed and undertook that, among other things, during periods from the date of the Deed of Concert Parties to the termination as set forth in the Deed of Concert Parties, each of them would cooperate with each other and acting in concert (for the purpose of the Takeovers Code), with an aim to achieve consensus and concerted action through our Company on all major affairs relating to Guangzhou Great Water.

These major affairs include, among other things, matters required to be approved by shareholders under the articles of association of Guangzhou Great Water, such as the declaration of dividends, short-term and long-term operation and development plans, the approval of annual budgets, the adoption of accounts and the appointment of directors and senior management.

In particular, pursuant to the Deed of Concert Parties, each of Mr. Xie, Ms. Gong and Mr. Song agreed, confirmed and undertook that from the date of the Deed of Concert Parties, among other things:

- (i) when exercising their respective voting rights at the shareholders’ meetings of Guangzhou Great Water and, if applicable, through our Company, they would vote, or procure any entities which were entitled to vote at the shareholders’ meetings to vote, as the case may be, unanimously in accordance with the consensus achieved among them; and
- (ii) prior to voting on any resolutions in shareholders’ meeting and board meeting of Guangzhou Great Water and, if applicable, through our Company, each of them would discuss the relevant matters with other with a view to reaching consensus and an unanimous vote.

The arrangements under the Deed of Concert Parties would continue to have effect thereafter unless:

- (a) the parties thereto agree in writing to terminate the same; or
- (b) upon Listing of our Company; or
- (c) upon the winding up of our Company by the passing of Shareholders’ resolution under the laws of Cayman Islands.

In view of the arrangement under the Deed of Concert Parties and based on the unanimous voting record among Mr. Xie, Ms. Gong and Mr. Song, they are Controlling Shareholders of our Company and satisfy the ownership continuity and control requirements under Rule 11.12A(2) of the GEM Listing Rules.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Reorganisation

In preparation for the Listing, the Group underwent the Reorganisation to rationalise the Group's structure. Following the Reorganisation, our Company became the holding company of our Group. The Reorganisation involved the following:

(a) Transfer of equity interests in Guangzhou Great Water by Mr. Song to Mr. Xie

On 5 December 2014, Mr. Song transferred his 1% equity interests in Guangzhou Great Water to Mr. Xie as transferee at a consideration of RMB406,770, which was determined with reference to net asset value of Guangzhou Great Water as at 30 June 2014. The purpose of this transfer is to enable Mr. Xie to achieve a shareholding of over 30% upon Listing.

(b) Incorporation of Perfect Wave, Thinker Global and Topman Ventures

Perfect Wave was incorporated on 8 January 2015 in the BVI as an investment holding company of Mr. Xie and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. Upon incorporation, 1 share was allotted and issued, for cash at par value, to Mr. Xie.

Thinker Global was incorporated on 3 December 2014 in the BVI as an investment holding company of Ms. Gong and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. Upon incorporation, 1 share was allotted and issued, for cash at par value, to Ms. Gong.

Topman Ventures was incorporated on 6 January 2015 in the BVI as an investment holding company of Mr. Song and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. Upon incorporation, 1 share was allotted and issued, for cash at par value, to Mr. Song.

(c) Incorporation of Oceanic Expert, Waterman Global and Great Time

Oceanic Expert was incorporated on 12 January 2015 in the BVI as an intermediate investment holding company of Mr. Xie and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. Upon incorporation, 1 share was allotted and issued, for cash at par value, to Perfect Wave.

Waterman Global was incorporated on 2 February 2015 in the BVI as an intermediate investment holding company of Ms. Gong and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. Upon incorporation, 1 share was allotted and issued, for cash at par value, to Thinker Global.

Great Time was incorporated on 6 February 2015 in the BVI as an intermediate investment holding company of Mr. Song and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. Upon incorporation, 1 share was allotted and issued, for cash at par value, to Topman Ventures.

HISTORY, REORGANISATION AND GROUP STRUCTURE

(d) Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015. As at the date of its incorporation, our Company had an authorised share capital of HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each. Upon incorporation, 1 Share was allotted and issued for HK\$0.01 to Sharon Pierson, the first subscriber. On 25 March 2015, the first subscriber transferred 1 issued Share in our Company to Oceanic Expert for HK\$0.01, which was the original issue price of such Share. On the same day, 1 Share was allotted and issued as fully paid at par value to each of Waterman Global and Great Time.

(e) Incorporation of Great Water Hong Kong and transfer of 1 share in Great Water Hong Kong to our Company

On 10 March 2015, Great Water Hong Kong was incorporated in Hong Kong as a limited liability company. Upon incorporation, 1 share was allotted and issued for HK\$1.00 to CWL Secretarial Services Limited, the first subscriber. On 1 April 2015, the first subscriber transferred 1 issued share in Great Water Hong Kong to our Company for HK\$1.00, which was the original issue price of such share.

(f) Acquisition of an aggregate of 10% equity interests in Guangzhou Great Water by Mr. Xie, Ms. Gong and Mr. Song from Woody Industrial Limited

On 17 April 2015, Mr. Xie, Ms. Gong and Mr. Song collectively acquired 10% equity interests in Guangzhou Great Water from Woody Industrial Limited for a total consideration of RMB4,067,700, which was determined with reference to the net asset value of Guangzhou Great Water as at 30 June 2014 and was settled on 10 July 2015. Upon this acquisition, Guangzhou Great Water became a domestic company and its equity interests were owned as to 45.11% by Mr. Xie, 33.14% by Ms. Gong and 21.75% by Mr. Song respectively.

(g) Establishment of Lintao EP

Lintao EP was established on 28 April 2015. Mr. Xie, Ms. Gong and Mr. Song collectively used their entire equity interests in Guangzhou Great Water, being RMB48,000,000 as determined with reference to the net asset value of Guangzhou Great Water as at 31 October 2014, as a capital contribution to establish Lintao EP with registered capital of RMB48,000,000. Upon the establishment, the equity interests of Lintao EP were owned as to 45.11% by Mr. Xie, 33.15% by Ms. Gong and 21.74% by Mr. Song respectively. Lintao EP formally became the sole shareholder of Guangzhou Great Water on 21 May 2015.

(h) Establishment of Hongrun EP

Hongrun EP was established on 7 May 2015. Lintao EP used its entire equity interests in Guangzhou Great Water, being RMB48,000,000 as determined with reference to the net asset value of Guangzhou Great Water as at 31 October 2014, as its capital contribution to establish Hongrun EP with a registered capital of RMB48,000,000. Hongrun EP formally became the sole shareholder of Guangzhou Great Water in place of Lintao EP on 22 May 2015.

HISTORY, REORGANISATION AND GROUP STRUCTURE

(i) Acquisition of 10% equity interests in Lintao EP by Woody Industrial Limited from Mr. Xie, Ms. Gong and Mr. Song

On 15 May 2015, Woody Industrial Limited acquired an aggregate of 10% equity interests in Lintao EP from Mr. Xie, Ms. Gong and Mr. Song for a total consideration of RMB4,800,000 which was based on the amount of registered capital of Lintao EP and was settled on 10 July 2015. Upon this acquisition, Lintao EP was converted from a domestic company to a sino-foreign equity joint venture enterprise. The equity interests in Lintao EP were owned as to 90% by Mr. Xie, Ms. Gong and Mr. Song and as to 10% by Woody Industrial Limited respectively.

(j) Acquisition of an aggregate of 90% equity interests in Lintao EP and 10% equity interests in Lintao EP by Great Water Hong Kong from Mr. Xie, Ms. Gong and Mr. Song and from Woody Industrial Limited respectively

On 15 May 2015, Great Water Hong Kong entered into an agreement with, inter alia, Mr. Xie, Ms. Gong and Mr. Song, pursuant to which Great Water Hong Kong agreed to acquire an aggregate of 90% equity interests in Lintao EP from Mr. Xie, Ms. Gong and Mr. Song for a total consideration of RMB43,200,000 (equivalent approximately to HK\$54 million), which was determined with reference to the net asset value of Guangzhou Great Water as at 31 October 2014 in a valuation report dated 3 April 2015 prepared by an independent valuer. Such total consideration was subsequently paid to Mr. Xie, Ms. Gong and Mr. Song on 10 July 2015 upon completion of allotment of shares by Great Water Hong Kong to our Company as discussed in (l) below.

On 15 May 2015, Great Water Hong Kong entered into an agreement with, inter alia, Woody Industrial Limited, pursuant to which Great Water Hong Kong agreed to acquire 10% equity interests in Lintao EP from Woody Industrial Limited for a consideration of RMB4,800,000, which was based on net asset value of Guangzhou Great Water as at 31 October 2014 in a valuation report dated 3 April 2015 prepared by an independent valuer and such consideration was settled by the allotment and issue of 10 shares in Great Water Hong Kong to Woody Industrial Limited on 2 June 2015. Upon these acquisitions, Lintao EP was converted from a sino-foreign equity joint venture enterprise to a wholly foreign-owned enterprise wholly-owned by Great Water Hong Kong. The above transfers of equity interests in Lintao EP were registered at the relevant authorities in the PRC on 25 May 2015.

On 2 June 2015, our Company acquired 10 shares in Great Water Hong Kong from Woody Industrial Limited in consideration of 22,500,000 Shares being allotted and issued to Woody Industrial Limited.

Our PRC Legal Advisers have confirmed that all approvals, permits and licences from the relevant PRC government authorities regarding the acquisitions in the PRC in relation to the Reorganisation have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations and that all of the acquisitions under the Reorganisation have been properly and legally completed and settled. Our Directors consider that the acquisitions in relation to the Reorganisation have been properly and legally completed and confirm that the Reorganisation complies with the relevant laws and regulations.

HISTORY, REORGANISATION AND GROUP STRUCTURE

(k) Allotment of Shares by our Company to Oceanic Expert, Waterman Global and Great Time

On 2 June 2015, for the purpose of financing the acquisition of 90% equity interests in Lintao EP by Great Water Hong Kong (as discussed in (j) above) and providing working capital to our Company, in consideration of HK\$24,416,400, HK\$17,939,425 and HK\$11,769,175 being payable to our Company by Oceanic Expert, Waterman Global and Great Time respectively, an additional 202,499,997 Shares were allotted and issued by our Company at premium as to 91,349,999 Shares to Oceanic Expert, 67,117,499 Shares to Waterman Global and 44,032,499 Shares to Great Time respectively. The total subscription monies of HK\$54,125,000, which was settled on 7 July 2015, was to be used to subscribe 89 shares of Great Water Hong Kong as discussed in (l) below.

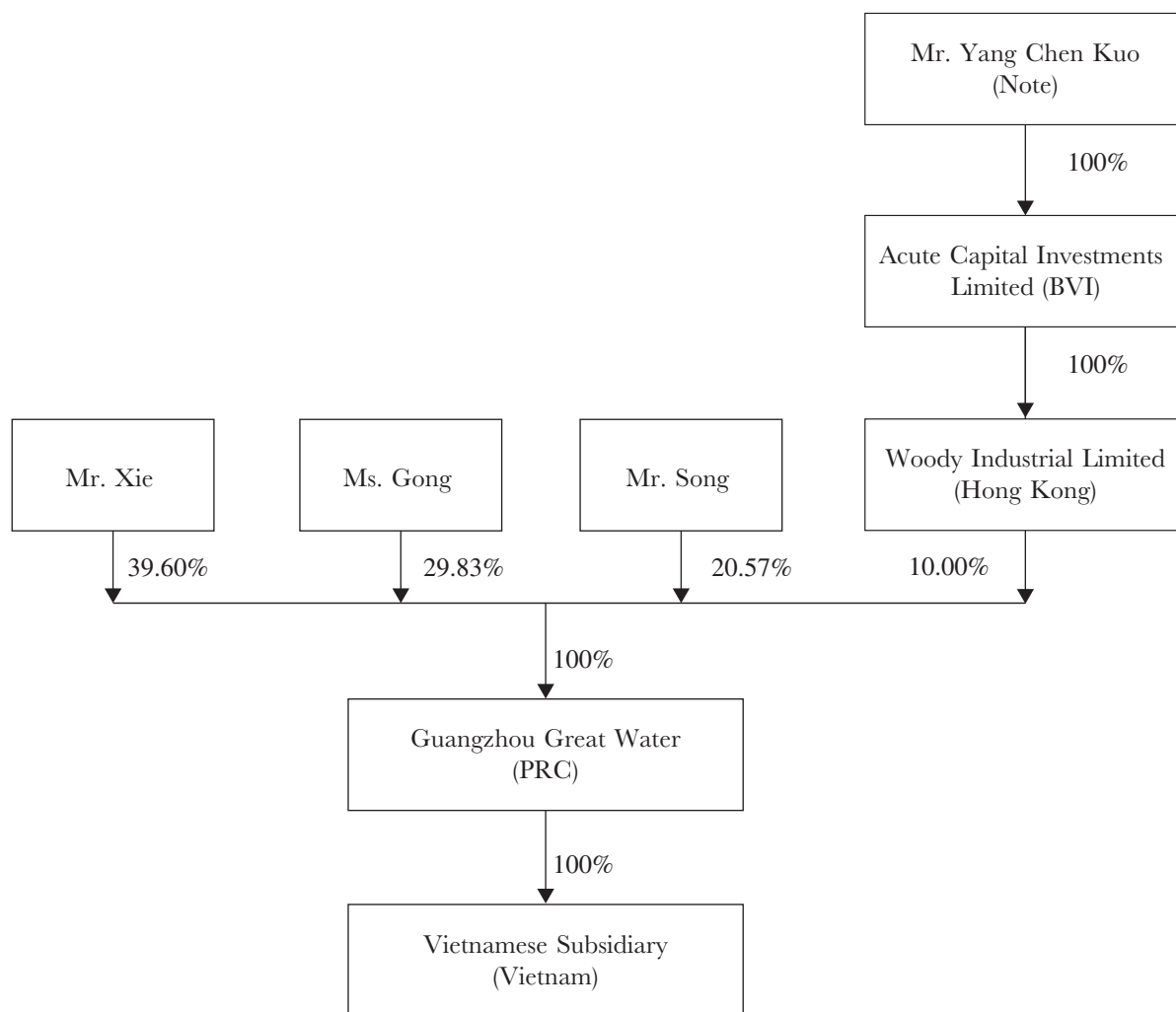
(l) Allotment of Shares by Great Water Hong Kong to our Company

On 2 June 2015, in consideration of HK\$54,125,000 being payable to Great Water Hong Kong by our Company in cash, an additional 89 shares were allotted and issued by Great Water Hong Kong to our Company. The subscription monies of HK\$54,125,000, which was settled on 7 July 2015, was to be used to acquire 90% equity interests in Lintao EP from Mr. Xie, Ms. Gong and Mr. Song respectively (as discussed in (j) above).

HISTORY, REORGANISATION AND GROUP STRUCTURE

GROUP STRUCTURE

The shareholding and corporate structure of the Group prior to the Reorganisation is set out below:

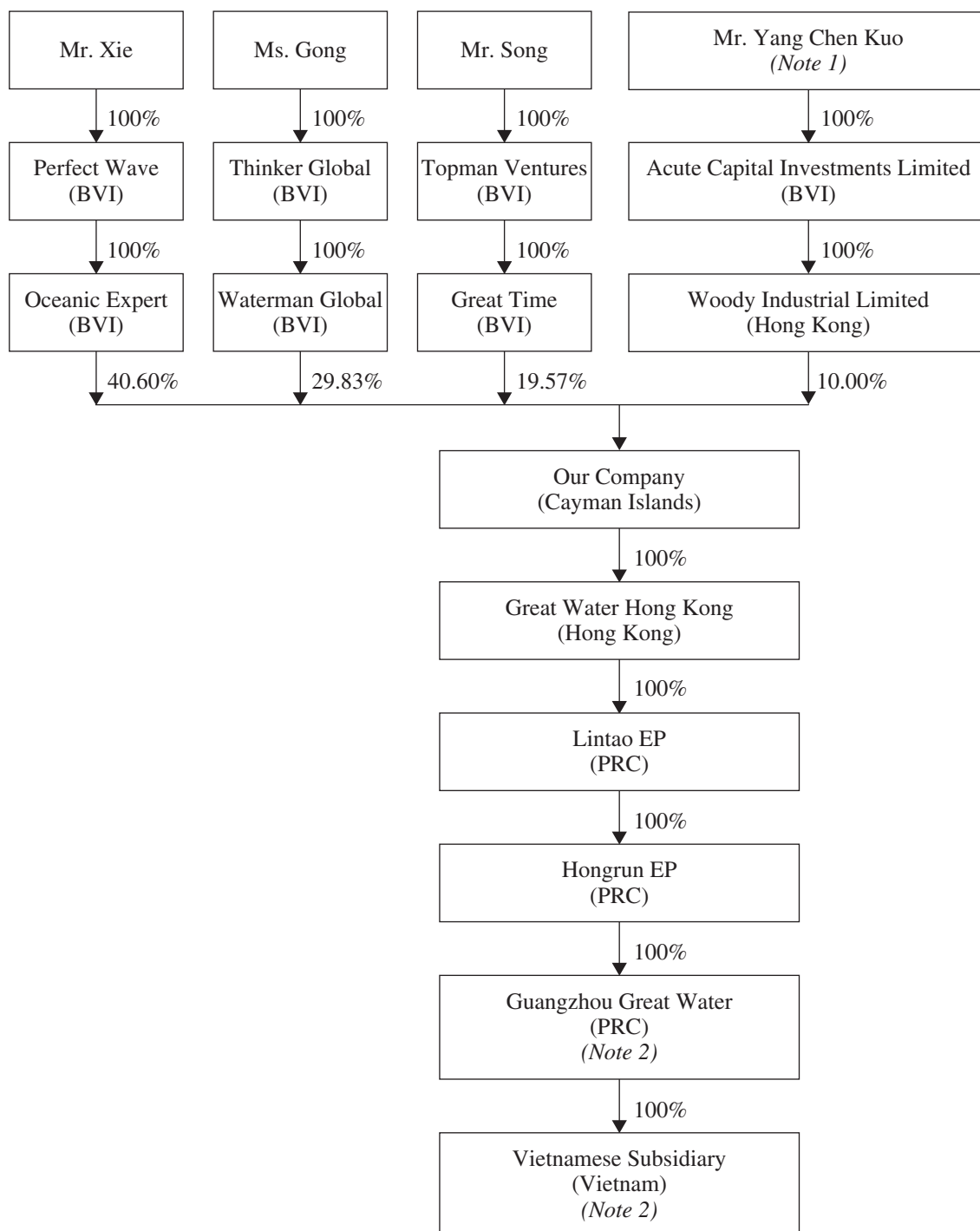


Note 1: Mr. Yang Chen Kuo is an Independent Third Party.

Note 2: Guangzhou Great Water and the Vietnamese Subsidiary, being our operating subsidiaries, are engaged in the provision of wastewater treatment engineering services.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our Group structure immediately after the Reorganisation is set out below:

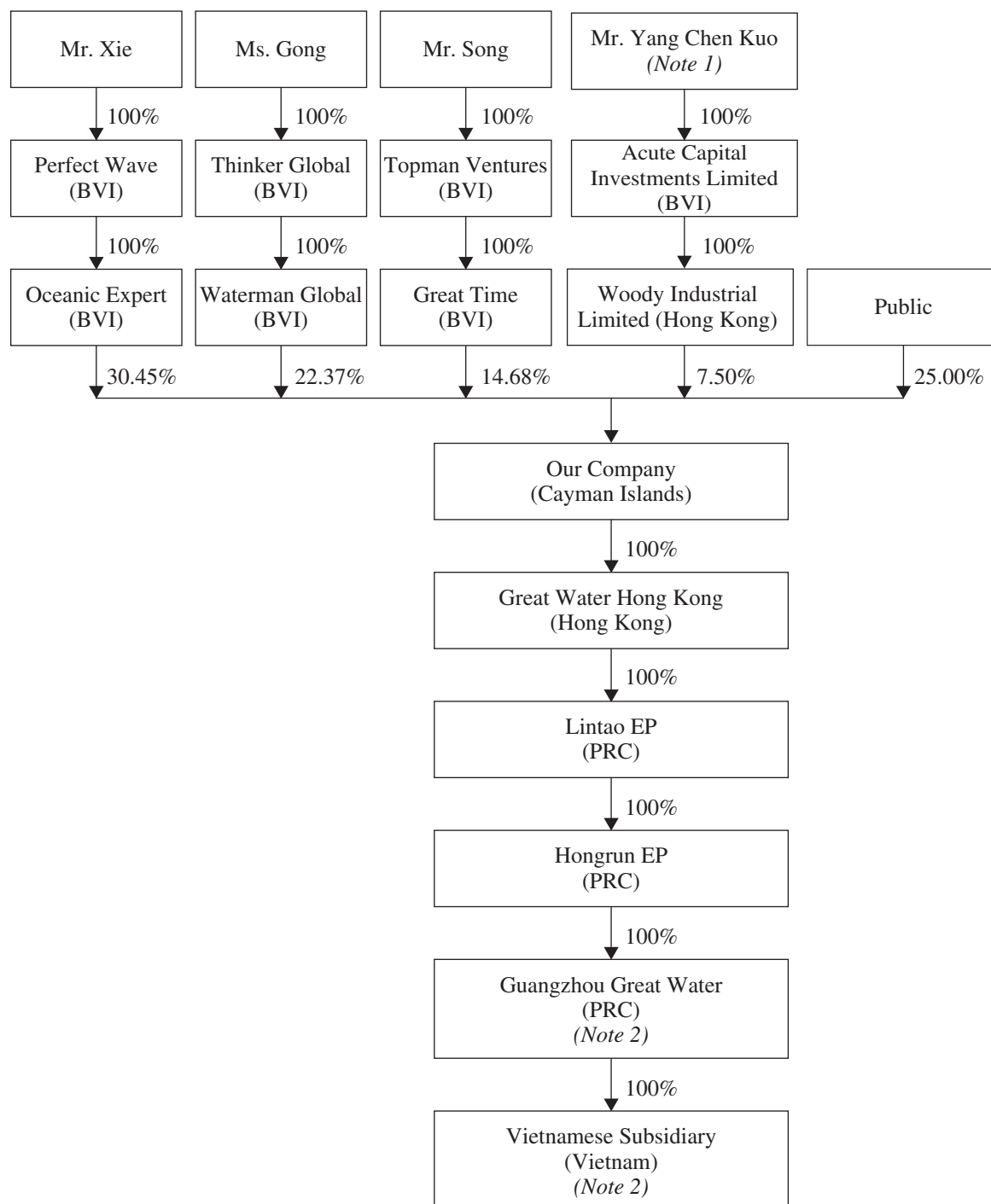


Note 1: Mr. Yang Chen Kuo is an Independent Third Party.

Note 2: Guangzhou Great Water and the Vietnamese Subsidiary, being our operating subsidiaries, are engaged in the provision of wastewater treatment engineering services.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our Group structure immediately after completion of the Placing is set out below:



Note 1: Mr. Yang Chen Kuo is an Independent Third Party.

Note 2: Guangzhou Great Water and the Vietnamese Subsidiary, being our operating subsidiaries, are engaged in the provision of wastewater treatment engineering services.

OVERVIEW

We are principally in the business of providing engineering services for building wastewater facilities in the PRC. Over the years, we have accumulated significant technical know-how which has enabled us to serve customers seeking customised engineering solutions in building wastewater treatment facilities across industries such as municipal wastewater treatment, food processing, textile and chemical manufacturing.

Through Guangzhou Great Water, our principal operating subsidiary, we offer wastewater treatment engineering services in the following manner:

- **EPC project** — we assume the role of main contractor in charge of overall project management of building a treatment plant from initiation to commissioning for a pre-determined contract amount. As an EPC contractor, we design the treatment facilities, procure necessary materials and build the project, through our appointed sub-contractor(s). During the Track Record Period, we undertook 9 EPC projects (5 completed and 4 still in progress), and all of them were industrial wastewater treatment projects operated by private enterprises.
- **Equipment project** — we mainly provide procurement services only to a pre-defined section of a project. In determining the equipment and machinery best suited for the project operator's requirements, our technical team often needs to devise different equipment options for the customer to evaluate. During the Track Record Period, we undertook 10 equipment projects (7 completed and 3 still in progress) and a majority of them were for municipal wastewater treatment facilities operated by BOT project companies.

As part of our ancillary services, we also provide (i) routine O&M (operation and maintenance) work on our customers' existing wastewater or drinking water treatment facilities; and (ii) technical advisory work for upgrading wastewater treatment facilities.

During the Track Record Period, we were also involved in some other environmental protection projects. In November 2013, one of our wastewater customers, recognising our strong project management skill, engaged us to install an ash removal, desulfurisation and denitration control system for the flue gas of a thermal power plant adjacent to the wastewater treatment facility which was previously built by us. In January 2014, we were engaged by a subsidiary of a state-owned environmental protection firm (which is based in Hubei Province) to provide engineering and environmental protection solutions to two of its customers in Guangdong Province for installation of boilers and dust collection systems in their respective production facilities.

Furthermore, with our in-depth knowledge on the performance data relating to various technologies treating different contaminants in the wastewater, we believe we have the necessary knowledge and skill set to expand into soil remediation business. In August 2014, we obtained an advisory contract with contract value amounting to RMB548,000 for providing a steel mill in Guangdong Province with preliminary design and technical advisory work for a soil remediation project. In addition, in November 2014, we were successfully awarded a soil remediation project with a contract value of RMB10.1 million by a subsidiary of a state-owned environmental protection company on a piece of contaminated land in Guangzhou that will undergo property development after our work.

BUSINESS

The following table shows our revenue breakdown by business segments and project category for the periods/years indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Wastewater/Drinking								
Water Treatment Projects								
— EPC projects	42,147	67.1	25,624	21.0	4,206	30.1	5,655	9.0
— Equipment projects	—	—	68,365	55.9	3,999	28.7	44,908	71.2
Subtotal	42,147	67.1	93,989	76.9	8,205	58.8	50,563	80.2
Other Environmental Protection								
Projects								
— Construction projects	2,807	4.5	722	0.6	73	0.5	10,734	17.0
— Equipment projects	16,666	26.5	18,967	15.5	4,924	35.3	33	0.1
Subtotal	19,473	31.0	19,689	16.1	4,997	35.8	10,767	17.1
O&M/Technical advisory services	1,196	1.9	8,544	7.0	754	5.4	1,721	2.7
TOTAL	62,816	100.0	122,222	100.0	13,956	100.0	63,051	100.0

As at 31 October 2015, save for the O&M projects, we had the following uncompleted projects on hand: (i) four EPC projects, three equipment projects and one construction project under the wastewater/drinking water treatment segment; and (ii) two technical advisory projects, with an aggregate value of works to be completed amounting to RMB58.7 million.

During the Track Record Period, we derived the majority of our revenue in the PRC, except for an EPC project in Vietnam which was incidental to the request by our existing customer in the PRC, namely Pacific (Panyu) Textiles Limited (互太(番禺)紡織印染有限公司), when it expanded its business to Vietnam. In December 2013, we were engaged by a fellow subsidiary of this customer to be the EPC contractor to build a wastewater treatment plant to service its textile factory in Vietnam. Both of the fellow subsidiary and the existing customer are part of a sizeable textile manufacturing group listed on the Stock Exchange. This project (Vietnamese Project) has a contract value of RMB27.9 million. Before that, we had been the EPC contractor for a member of this group in the PRC. Our Directors consider this is a sign of our ability to deliver projects to customer satisfaction that our services were called upon when our customer was expanding its operation overseas. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, nil, 8.8% and 5.4% of our total revenue was derived from the Vietnamese Project.

At present, our intention is to continue to focus our business in the PRC, given the local knowledge and connection we possess. We would only consider extending our services to overseas projects, particularly for those we have the experience and expertise, if so requested by our customers in the PRC.

BUSINESS

Industrialisation, urbanisation, as well as the increasingly stringent government policies on reducing water pollution has driven the demands for wastewater treatment engineering services. In recent years, the PRC government has promulgated various policies which further accelerate industrial enterprises' investments to upgrade wastewater treatment facilities in order to meet the stricter discharge standards prescribed by PRC laws. Please refer to the section headed "Industry Overview — Key Drivers for Wastewater Treatment Engineering Services Industry in the PRC" of this prospectus for further details. Riding on our expertise, operational resources and experience in wastewater treatment engineering services in the PRC, our Directors believe that we are well-positioned to capture the growing demands for wastewater treatment engineering services in the PRC.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

Established proven track record

We have established a proven track record in executing projects to the satisfaction of our customers. We believe this has enabled us to win continued business from existing customers. In addition to the project in Vietnam from a customer whom we served before, we were engaged individually by several BOT project companies (which are subsidiaries of a state-owned wastewater solution provider listed on the main board of the Stock Exchange) for a total of six wastewater/drinking water equipment projects in different parts of the PRC during the Track Record Period. With our expanding portfolio of completed projects going forward, we are confident that our reputation in the industry will be further strengthened, which in turn will bring about more business opportunities to us.

Experienced and stable management team

As we are in the service industry, having an experienced and stable management team is of the utmost importance. Mr. Xie, our chairman and executive Director, has over 13 years of experience in management of the wastewater treatment engineering business. He has developed an extensive network with various stakeholders in this industry, such as wastewater treatment plant operators, other EPC contractors, equipment suppliers and relevant government officials. This valuable network helps introduce our services to potential customers as well as gather market intelligence on new business opportunities. Mr. Kang Zhao Yu, our vice president and chief engineer, who has been with us for over 7 year has over 12 years of experience in the environmental protection engineering industry. Mr. Kang is responsible for our technical and engineering operation and has developed several of our wastewater treatment processes, which are patented in the PRC. Further details of the qualification and experience of our Directors and senior management are set out in the section headed "Directors, Senior Management and Staff" of this prospectus. The qualifications and experience of Mr. Xie and Mr. Kang facilitate the formulation of competitive tenders, which are essential to us in securing new business and in carrying out efficient and timely implementation and management of project works, and position our Group for continued growth.

Diverse experience and capabilities

During the Track Record Period, we have served customers in different industries, including textile, chemical, food processing as well as municipal wastewater treatment. Through working in these projects, we developed and accumulated significant technical know-how in wastewater treatment engineering. We believe our strong technical platform has enabled us to provide customised wastewater treatment solutions to customers across these different industries in an efficient manner as well as to allow us to take on other types of environmental protection projects, such as soil remediation. We believe these new business opportunities will certainly have a positive effect on our financial performance.

Stringent quality, environmental protection and safety controls

We recognise the importance of quality, environmental and safety controls as they can directly affect our reputation, our service quality and our financial performance. We implement procedures for maintaining a high standard of quality control in our business operation. We have received a certificate of conformity of quality management system certification for our management system's compliance with ISO 9001:2008 standards. Our commitment to maintaining a quality management system enables our Group to constantly meet the requirements of our customers. Furthermore, our Directors believe that our effective occupational health and safety management system can help reduce our exposure to claims and improve our overall service quality and profitability. Our customers emphasise workplace safety and environmental compliance as assessment criteria for their services providers. Thus, our good compliance track record and management system increases our ability to secure new contracts from customers.

OUR BUSINESS OBJECTIVES AND STRATEGIES

We seek to achieve sustainable growth in our business and to create long-term shareholder's value by maintaining and enhancing our position in the PRC's wastewater treatment engineering service industry, as well as gradually expanding into other environmental protection businesses. We intend to achieve this by implementing the business strategies as set out below. Please also refer to the section headed "Statement of Business Objectives and Use of Proceeds" in this prospectus for details of our implementation plan.

Continue to strengthen our market position

We believe we have established a recognisable market position in Guangdong Province. With our proven track record, we intend to actively seek business opportunities in the central and north regions of the PRC, as both regions serve a growing number of industrial enterprises which should create potential business opportunities for us. We plan to enhance our marketing efforts by participating in national and regional industry events, increasing communication and liaisons with potential customers and industry organisations in those regions and inviting them to visit our completed projects in order to promote our market reputation.

Furthermore, we also intend to expand our O&M operations outside Guangdong Province to generate stable recurring earnings. With a large number of industrial enterprises located in the central and north regions of the PRC, we anticipate there will be growing demands for O&M services in view of the PRC government's increasingly stringent standards on industrial wastewater discharge. We

BUSINESS

consider that our track record of working closely with industrial enterprises in EPC projects and our expertise in the O&M business will provide us with a competitive edge to secure more business opportunities in the O&M business.

In this regard, we plan to open two new offices, one in the central and one in the north region of the PRC, and to hire additional marketing and administrative staff to station in these new offices to capture potential business opportunities as mentioned above.

Nevertheless, we have no immediate intention to expand our business by acquisition and no acquisition target has been identified as at the Latest Practicable Date.

Expand our soil remediation project business

We possess in-depth experience and knowledge on treating pollutants/containments in wastewater by deploying different technologies in order to achieve the optimal result for different industries. With such capabilities, we have ventured into the soil remediation business. We expect this areas offers tremendous business opportunities, due to continued urbanisation and moving industrial enterprises away from populated areas. Furthermore, we believe there is presently less competition in this area due to a limited number of industry participants.

Therefore, we plan to participate the industry events to identify business opportunities and invite our potential customers to visit our completed projects.

Continue to enhance our R&D capabilities

As the manufacturing processes employed by our customers, whether in the textile, chemical or food processing industry, keep changing and improving, the composition of pollutants/containments in the wastewater in which they are discharged also changes. Furthermore, equipment manufacturers keep producing more advanced wastewater treatment equipment and machinery. Therefore, it is important that we have sufficient R&D capabilities to develop new effective solutions for this changing environment.

In this regard, we will purchase up-to-date laboratory equipment and testing materials to deepen our R&D efforts. We will also arrange external training/seminars for our R&D personnel in order to keep them abreast of the latest development on wastewater treatment technologies.

We believe our continuing efforts in enhancing our R&D capabilities will contribute to our sustainable development and maintain our competitiveness in the industry.

Upgrade our qualifications in construction and engineering design

We presently possess the Qualification of Environmental Engineering Professional Contractor (Level 3) and the Qualification of Environmental Engineering Specialty Design (Class B). There are limits placed on the size of projects which we can undertake under our present qualifications. In order to be capable of taking on larger projects, we have to upgrade our respective qualifications. Please refer to the section headed “Laws and Regulations” in this prospectus for details of the relevant requirements for upgrading the qualifications.

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We have set a timeline of fulfilling the necessary requirements by the end of 2017. We will recruit the necessary qualified experienced professionals and to provide relevant training and external courses to our existing relevant staff to enable them to be accredited with the required professional certifications in order to fulfil the human resources requirement for upgrading the qualifications. In this regard we plan to recruit 10–15 additional qualified professionals to strengthen the capabilities of our engineering and technical team.

Fund the working capital for our EPC projects

As we are going to expand our business to other provinces in the PRC, we expect our business volume will increase. Our EPC projects always require working capital to fund the project cashflow until we reach the stage where the treatment facilities have been examined, approved and accepted by the customer. In the first 9 to 12 months of an EPC project, we expect a project cashflow deficit amounting to 15%–20% of the entire project costs. Therefore, we plan to apply part of the listing proceeds to fund the working capital for EPC projects.

OUR BUSINESS SEGMENTS

Wastewater/drinking water projects

During the Track Record Period, we served as an EPC contractor, equipment contractor, or O&M services provider in a number of wastewater and drinking water projects.

EPC projects

As an EPC contractor, we are in charge of the overall project management of building a wastewater treatment plant from initiation to final commissioning at a pre-determined project amount. Our scope of services mainly include (i) engineering design, (ii) procurement of necessary parts, treatment equipment and machinery, (iii) appointment of sub-contractors for the construction and installation of treatment facilities, and (iv) testing and commissioning. In addition, we also need to ensure that the treatment project adheres to all relevant rules and regulations in all aspects.

We do not carry out construction or installation work ourselves. Instead, we engage sub-contractors to perform such work under our strict supervision. However, for certain key components of the filtration system and the core unit of the reaction tank, we usually handle the unit integration in-house before passing it to the sub-contractors for installation.

Most of our EPC customers are industrial companies, and we, through private invitation, submit our tenders to customers. Financially, it is important that we budget all the project expenditures accurately when we calculate the bidding amount. As an EPC contractor, we have to be responsible for any cost overruns. Therefore, as soon as we enter into an EPC contract with a customer, we will sign up with corresponding material suppliers and sub-contractors, based on the initial quotations provided to us. It is the industry's customary practice that the price quotations provided by material suppliers and sub-contractors carry a validity period. In the event of procuring uncommon equipment from an exclusive supplier, we may require such supplier to put up a performance guarantee equivalent to 5% of the equipment amount with us when submitting quotation to us to ensure the supplier would abide by the

quotation it submits if it is selected by us. If we finally sign up with such supplier and the contract amount is increased from the initial quotation, we will deduct such increase from such performance guarantee. Otherwise, such performance guarantee amount will be returned in full to the supplier upon signing the contract. During the Track Record Period, we did not experience any cost overruns which led us to a loss on a project basis.

Depending on the complexity of the project, the usual average duration of an EPC project runs around 18 months. Upon commissioning of the project, we usually provide a 12-month warranty period, during which we are responsible for rectifying any defects in the treatment system. Likewise, all the suppliers and sub-contractors contracted with us are required to provide a corresponding back-to-back warranty on their products or services offered. During the Track Record Period, we did not incur any material expenditure for rectifying defects under the warranty period.

Equipment projects

It is common in the large-scale municipal wastewater/drinking water treatment projects, which are usually operated under BOT model, for the BOT operator to invite us to participate in procuring materials for certain sections of the project. In equipment projects, we are responsible for assisting the BOT operator in identifying the equipment and machinery best suited to the treatment standards laid down by the operators, and procuring such materials for delivery to the project site for installation. Therefore, our engineering and technical team has to work closely with the BOT operator initially before our procurement team comes into play. Similar to EPC projects, we need to provide a 12-month warranty period to the BOT operator and at the same time we have a back-to-back warranty from the relevant suppliers.

Other environmental protection projects

Over the years, we have accumulated significant project management experience and technical know-how which have enabled us to serve customers seeking engineering or procurement services in other environmental protection areas like flue gas treatment for a power plant and soil remediation.

For instance, in the flue gas project, we applied our wastewater treatment know-how in chemical reactions and filtration techniques to facilitate the removal of air pollutants in the desulfurisation and denitration processes. In addition, water carrying sulphur content is discharged at the final stage of desulfurisation process, which also requires our expertise and technologies in wastewater treatment to handle such water discharge. In the soil remediation project, we used the dewatering techniques to reduce the moisture content of the contaminated soil, as well as the incineration process to treat the dewatered soil. These are the steps we adopt for the treatment of the sludge produced at the end of the wastewater treatment process. Furthermore, wastewater treatment services are often needed during the course of soil remediation, as water is used to partially wash off contaminants from the soil and contaminated underground water may sometimes be discovered on the work site. For the soil remediation project, we usually engaged external qualified sub-contractors to carry out the work relating to solid waste collection and transportation as well as incineration.

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Our in-house engineering and technical staff members responsible for project design and execution are generally majored in engineering and other environmental science related disciplines in their respective tertiary education, and they receive on-the-job training in relevant engineering technologies from time-to-time. Hence, they possess the relevant skill sets and knowledge, and are capable of handling other environmental protection projects in addition to wastewater treatment projects. Meanwhile, our Group does not possess any specific equipment for conducting our wastewater treatment projects and other environmental protection projects. The equipment used in each project are designed or purchased for the relevant treatment facility based on our client's different requirements and may vary from project to project.

Flue gas project

This particular project was mandated to us by a wastewater customer for whom we built a wastewater treatment plant for its food processing factory in the Guangdong Province in November 2013. The power plant is located adjacent to the food processing factory. The main purpose of the flue gas treatment facilities is to reduce the level of sulphur dioxide, nitrogen compound, ash and other pollutants in the emissions from the power plant. The project was handed to us in two contracts which are (i) to perform installation work and the piping for the treatment equipment and machinery (with a contract value of RMB4.1 million) and (ii) to procure and integrate all the necessary equipment and machinery to conduct the desulfurisation and denitration processes as well as to connect the wastewater treatment system supporting the desulfurisation and denitration processes with the principal wastewater treatment facilities in the factory (with a contract value of RMB35.4 million).

Soil remediation project

The aim of soil remediation works is to reduce contaminants in the soil to the levels at which the land is safe to use. Soil remediation projects often call for a wastewater treatment process, as water is used to partially wash off contaminants from the soil or because of contaminated underground water discovered in the site.

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During the Track Record Period, we were awarded an advisory contract with contract value amounting to RMB548,000 by a steel manufacturing company in Guangdong Province to help clean up the soil of its vacated site which used to be occupied by a steel mill in Guangzhou. Further, in November 2014, a subsidiary of a state-owned environmental protection company in Hubei Province engaged us with a service contract value of RMB10.1 million to undertake soil remediation work on a contaminated site of around 1,600 sq.m. in Guangzhou. The key processes of our soil remediation work mainly consist of the following:

- (i) *Dredging and transportation*: contaminated soil is dredged up and rinsed by water.
- (ii) *Wastewater treatment*: the wastewater arose from (i) above is treated with a chemical process and then, through different filtration steps and sedimentation, the treated water is discharged to the municipal wastewater collection system.
- (iii) *Off-site transportation and high temperature incineration*: the contaminated soil together with the residual substance from sedimentation, which is safely sealed and covered with special blankets, is delivered to a cement kiln for incineration.
- (iv) *Inspection and backfilling*: the soil of the dredged site is examined for acceptance. Once the customer accepts the result of our work, we will fill up with the dredged site with uncontaminated soil.

This soil remediation project has been fully completed as at the Latest Practicable Date.

O&M projects and technical advisory services

We provide operation and maintenance services to customers for managing their operating wastewater or drinking water treatment facilities. We charge our O&M customers a management fee on a monthly or quarterly basis, which is calculated based on the water volume being treated. Under the contract, we are responsible for the costs of repair and maintenance due to normal wear and tear over the term of our engagement. In addition, we have to station our staff at the treatment plant on a full time basis to monitor its operation and to make sure the quality of the treated waste water or drinking water complies with the required standards.

Furthermore, we are often requested by customers to provide technical advisory services mainly for (i) upgrading the capabilities of the treatment plant in order to meet the increasingly stringent discharge standards, (ii) establishing accident reporting and a safety compliance management system, and providing advice on removal and disposal of acid waste and sludge, and (iii) other engineering work relating to environmental protection projects.

Our top five projects

The following table sets forth our top five projects (based on the amount of revenue recognised during the year/period) which we undertook for each of the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015:

For the year ended 31 December 2013

Project name	Project sector	Business segment	Project category	Background information of the project owner	Our services	Principal technology employed	Contract value RMB '000	Amount of revenue recognised during the year RMB '000	Estimated completion date (Note)
1 Yihai Kerry Wastewater Treatment Project (益海嘉里污水處理項目)	Private	Wastewater/ Drinking water project	EPC project	A private industrial enterprise in Guangdong Province which is principally engaged in food processing and distribution	Construction of industrial wastewater treatment facility in Dongguan with an aggregate designed capacity of approximately 4,400m ³ per day	Eddy Inter-circulation anaerobic reactor and novel composite circulating high-efficiency biological reaction sewage treatment system (as patented by us)	35,221	22,876	Completed in September 2015
2 Yihai Kerry Thermal Power Plant Equipment Project (益海嘉里電廠設備項目)	Private	Other environmental protection project	Equipment project	A private industrial enterprise in Guangdong Province engaged in food processing and distribution	Procurement of equipment and machinery for the desulfurisation and denitration control systems and ash removal system for a thermal power plant in Dongguan	Desulfurisation, denitration and ash removal	35,412	16,448	Completed

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Project name	Project sector	Business segment	Project category	Background information of the project owner	Our services	Principal technology employed	Contract value RMB '000	Amount of revenue recognised during the year RMB '000	Estimated completion date (Note)
3 Huiyun Titanium Industrial Wastewater Treatment Project (惠雲鈦業污水處理項目)	Private	Wastewater/ Drinking water project	EPC project	A private industrial enterprise in Guangdong Province which is principally engaged in production processing of titanium chemicals	Construction of industrial wastewater treatment facility in Yunfu with an aggregate designed capacity of approximately 4,000m ³ per day	Chemical precipitation	14,548	11,419	Completed
4 Zhujiang Project (珠江項目)	Private	Wastewater/ Drinking water project	EPC project	A state-owned industrial enterprise in Guangdong Province which is principally engaged in the production and processing of chemical engineering related products	Construction of industrial wastewater treatment facility in Zhuhai with a designed capacity of approximately 74m ³ per day	Novel composite circulating high-efficiency biological reaction sewage treatment system (as patented by us)	7,482	7,482	Completed
5 Yihai Kerry Thermal Power Plant Construction Project (益海嘉里電廠工程項目)	Private	Other environmental protection project	Construction Project — Flue gas treatment project	A private industrial enterprise based in Guangdong Province which is principally engaged in food processing and distribution	Installation, testing and commissioning of desulfurisation and denitration control systems and ash removal system for a thermal power plant in Dongguan	Desulfurisation, denitration and ash removal	4,075	2,807	Completed
Total							61,032		
% of the total revenue for the year							97.2%		

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For the year ended 31 December 2014

Project name	Project sector	Business segment	Project category	Background information of the project owner	Our services	Principal technology employed	Contract value RMB '000	Amount of revenue recognised during the year RMB '000	Estimated completion date (Note)
1 Beijing Liangshuihe Equipment Project (北京凉水河設備項目)	Public	Wastewater/ Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater and slink treatment facility in Beijing with an aggregate designed capacity of approximately 960,000m ³ per day	Biological odouring	19,286	19,286	Completed
2 Yitai Kerry Thermal Power Plant Equipment Project (益海嘉里電廠設備項目)	Private	Other environmental protection project	Equipment project	A private industrial enterprise based in Guangdong Province which is principally engaged in food processing and distribution	Procurement of equipment and machinery for the desulfurisation and denitration control systems and ash removal system for a thermal power plant in Dongguan	Desulfurisation, denitration and ash removal	35,412	18,964	Completed
3 Dongying North Dongsheng District Equipment Project (東營東城北設備項目)	Public	Wastewater/ Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Dongying City with an aggregate designed capacity of approximately 40,000m ³ per day	Novel composite circulating high-efficiency biological reaction sewage treatment system (as patented by us)	15,778	15,778	Completed

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Project name	Project sector	Business segment	Project category	Background information of the project owner	Our services	Principal technology employed	Contract value RMB '000	Amount of revenue recognised during the year RMB '000	Estimated completion date (Note)
4 Pacific Textiles (Vietnam) Wastewater Treatment Project (越南五太污水處理項目)	Private	Wastewater/ Drinking water project	EPC project	A textile company established in Vietnam	Construction of industrial wastewater treatment facility in Vietnam with an aggregate designed capacity of approximately 4,500m ³ per day	Novel composite circulating high-efficiency biological reaction sewage treatment system (as patented by us)	27,897	10,715	December 2015
5 Yueyang Hubin Equipment Project (岳陽湖濱設備項目)	Public	Wastewater/ Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Yueyang City with an aggregate designed capacity of approximately 25,000m ³ per day	Novel composite circulating high-efficiency biological reaction sewage treatment system (as patented by us)	10,706	10,706	Completed
							Total	<u>75,449</u>	
							% of the total revenue for the year	<u>61.7%</u>	

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For the six months ended 30 June 2015

Project name	Project sector	Business segment	Project category	Background information of the project owner	Our services	Principal technologies employed	Contract value RMB'000	Amount of revenue recognised during the period RMB'000	Estimated completion date (Note)
1 Liaoning Anshan Equipment Project (遼寧鞍山設備項目)	Public	Wastewater/ Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Anshan City with a designed capacity of approximately 100,000m ³ per day	Novel composite circulating high-efficiency biological reaction sewage treatment system (as patented by us)	48,205	25,926	December 2015
2 Changsha Jinxia Equipment Project (長沙金霞設備項目)	Public	Wastewater/ Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Changsha City with a designed capacity of approximately 180,000m ³ per day	Novel composite circulating high-efficiency biological reaction sewage treatment system (as patented by us)	28,205	14,786	December 2015
3 Financial City Soil Remediation Project (金融城土壤修復項目)	Public	Other environmental protection project	Construction project — Soil remediation project	Government	Application of our soil remediation technology and expertise for soil and underground water for a piece of land in Guangzhou	High temperature incineration	10,065	10,065	Completed
4 Hunan Changde Equipment Project (湖南常德設備項目)	Public	Wastewater/ Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal drinking water treatment facility in Changde City with a designed capacity of approximately 15,000m ³ per day	Flocculation, sedimentation and filter sterilisation	4,197	4,197	Completed
5 Pacific Textiles (Vietnam) Wastewater Treatment Project (越南互太污水處理項目)	Private	Wastewater/ Drinking water project	EPC project	A textile company established in Vietnam	Construction of industrial wastewater treatment facility in Vietnam with an aggregate designed capacity of approximately 4,500m ³ per day	Novel composite circulating high-efficiency biological reaction sewage treatment system (as patented by us)	27,897	3,431	December 2015

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Project name	Project sector	Business segment	Project category	Background information of the project owner	Our services	Principal technologies employed	Contract value RMB '000	Amount of revenue recognised during the period RMB '000	Estimated completion date (Note)
							Total	<u><u>58,405</u></u>	
							% of the total revenue for the period	<u><u>92.6%</u></u>	

Note: The estimated completion date refers to the estimated time when the revenue from the respective projects are fully recognised.

OUR WASTEWATER TREATMENT ENGINEERING SERVICES

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, revenue attributable to wastewater treatment engineering services (in form of EPC and equipment projects) accounted for 67.1%, 76.9% and 80.2% of our total revenue. We build the success of our engineering services upon our proven capabilities to provide customers with optimal customised engineering solutions and our experience and knowledge over various treatment technologies and technical know-how which we developed over the years. In formulating the engineering design for the project, we have to take into account (i) the composition of the wastewater, (ii) the required discharge standards of pollutant levels in the treated wastewater, (iii) the quantity of wastewater to be treated over a defined period of time and, (iv) the investment amount and the ongoing operating cost. We need to ensure our proposed design is cost effective as well as able to satisfy the required discharge standards.

The effectiveness of a treatment process mainly depends on the treatment technology and treatment equipment and machinery so used. We often undertake laboratory tests and a pilot run when we adopt established treatment technologies in order to improve efficiency and performance. We believe we possess the technology platform to devise effective engineering services for the food processing, textile and chemical industries. We are experienced with using anaerobic, aerobic, biological-based, and chemical based technologies in wastewater treatment processes. In particular, we pride ourselves on successfully deploying anaerobic technology in our project for treating industrial wastewater with a high level of organic contaminants in the food processing industry. Anaerobic technology has the intrinsic advantage of energy saving, reduced sludge yield and a production of methane which can be converted into energy, and has become a favoured treatment technology for wastewater in recent years.

Wastewater treatment process

A wastewater treatment system typically consists of four stages, namely pre-treatment, primary, secondary and final treatment.

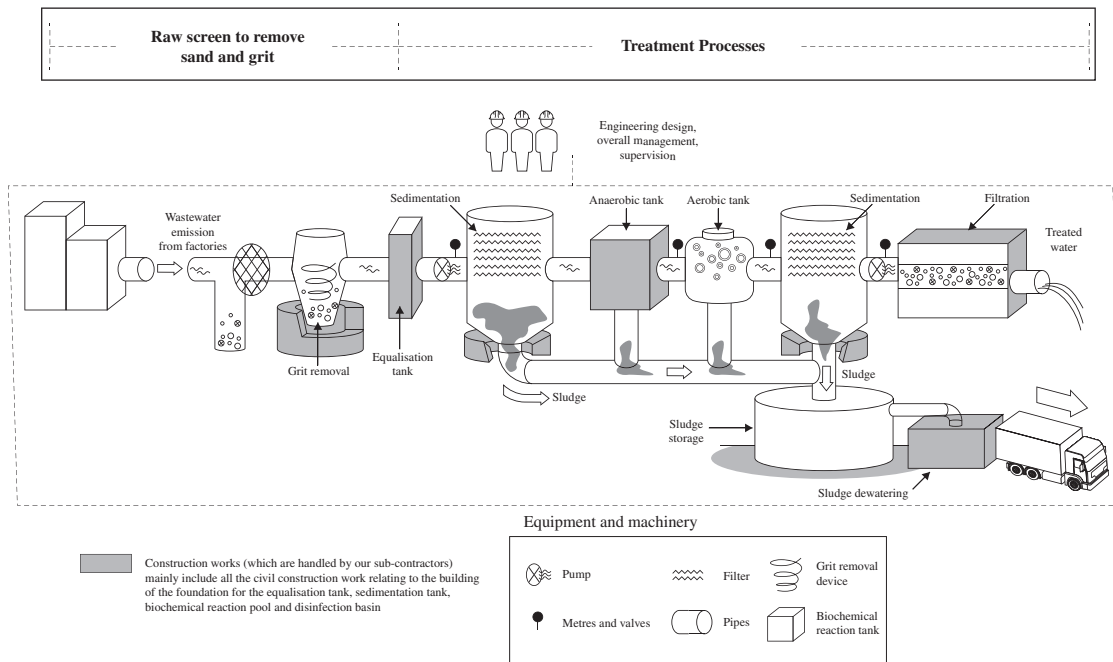
- *Pre-treatment:* Large subjects, coarse materials and other non-soluble particles, such as rags, papers, plastics, grit and grease, are removed through coarse and fine screening. Next, heavier particles are separated through the grit removal system. Following the screening and grit removal, wastewater enters into the equalisation tank where it stores the wastewater temporarily to equalise the flow in terms of organic loading and further homogenise the wastewater.
- *Primary treatment:* Pre-treated water then enters into the primary sedimentation tank to remove floating and settleable solids such as suspended solids and organic matters. For industrial wastewater, it flows to the neutralisation tank for the adjustment of pH values to achieve the desired treatment conditions.
- *Secondary treatment:* Processed wastewater enters into the anaerobic tank for anaerobic reaction which helps to breakdown the insoluble components in the wastewater. The wastewater then flows to aerobic tank for biochemical treatment where oxidation ditches are used to optimise the level of oxygen to increase the growth of micro-organisms that consume organic pollutants in the wastewater. The processed wastewater flows to the secondary sedimentation tank so as to separate sludge and other particles from the processed wastewater.

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- Final treatment:** Processed wastewater enters the final sedimentation tank and/or the filter tank to further separate and filter sludge and other particles from the processed wastewater. Processed wastewater then flows into the cleaning tank for disinfection by way of chlorination which kills harmful micro-organisms. The treated wastewater is then discharged or reused for industrial purpose.

Surplus sludge generated from the treatment process either flows back into the aerobic tank to maintain a sufficient level of micro-organisms for biochemical pool treatment or undergoes mechanical dewatering process before disposal.

The following diagram illustrates a typical wastewater treatment plant:



The table sets out below the typical construction work performed by the sub-contractors and, equipment and machinery purchased by us for our wastewater treatment projects:

Work scope

Typical construction works performed by subcontractors

Major works performed

- The major facilities for construction works usually include foundation structural work for screenings/grit removal systems, equalisation tanks, primary sedimentation tanks, neutralisation tanks, anaerobic tanks, aerobic tanks, and disinfection basins, a plant odour control building, a sludge pump station, an operation building, as well as a maintenance building.

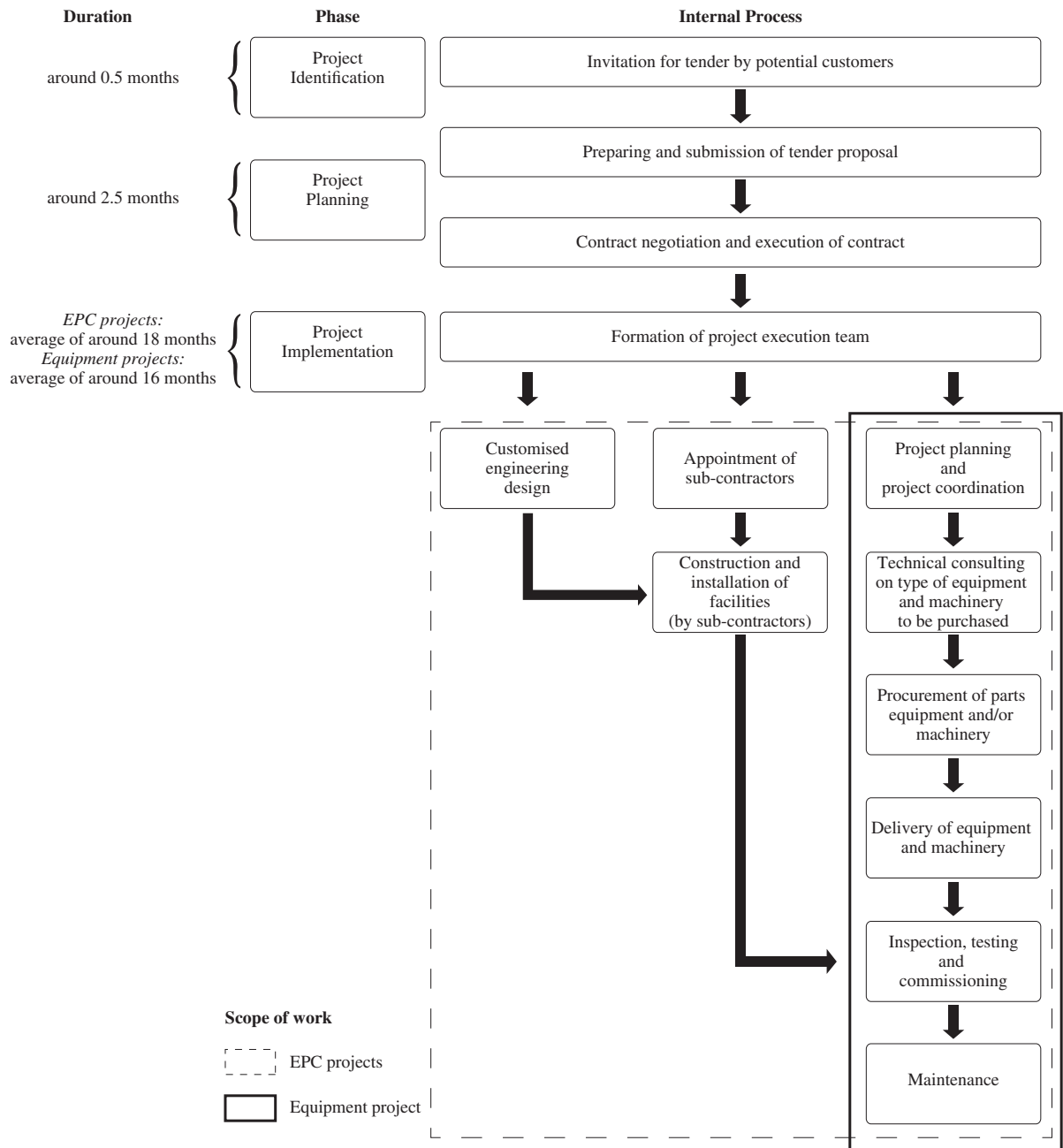
Typical equipment and machinery purchased by us

- The major equipment and machinery for our treatment project generally consists of pumps, metres, blowers, filters, valves, electric control system, decelerators, mixing apparatus, grid screen, chemical dosage devices, reaction ponds, pipeline systems, dregs removal devices, sludge removal devices, aerators, condensation and dehydration devices.

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General operational procedures for EPC and equipment projects

Set out below is the typical work flow of our EPC projects and equipment projects:



Projects Identification

Our sales and marketing department actively tracks and sources potential projects throughout the PRC. Our sales team monitors information from industry news and market development and utilises connections with local government to identify new business opportunities. Our reputation and track record also results in referrals for tender opportunities from our existing or previous customers.

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Prospective projects are first screened by our sales and marketing department by evaluating factors such as credit-worthiness of the potential customer, industry involved and composition of the wastewater, specific requirements of the customer, applicable treatment technologies, the estimated cost of the project and applicable discharge standards.

Our sales and marketing department gathers details of potential projects after initial assessment and conducts a feasibility study to further analyse site location, the project's environmental impact, industry involved, costs of construction, required equipment and technology, potential revenue and profit margin. When sufficient tender information is gathered and analysed, our sales and marketing team, with the advice of our engineering and technical department, will determine whether the project should be pursued and to submit a tender.

Project Planning

Tender process

We are usually awarded EPC contracts and equipment contracts through tenders by private invitation from our customers. After receiving tender invitations and details of the tender from potential customers, if we decide to tender for a particular project, we will form a tender committee comprising personnel from our sales and marketing department, our engineering and technical department, our procurement department and our finance department for the preparation of a tender proposal. Our tender committee will compile internal costing and budgetary estimates with reference to labour costs, cost of sub-contractors and material costs based on quotations from relevant suppliers and sub-contractors and factor in a suitable profit margin in determining our tender price. Quotations provided by suppliers and sub-contractors usually carry a validity period. We are protected from any price increase if we contract with such supplier/sub-contractor within the validity period.

Our finance department will make sure we have sufficient cash to meet the working capital requirement of the project. Our tender proposal is subject to the final approval of Mr. Xie, our Chairman and executive Director.

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Set out below is our bidding statistics during the Track Record Period:

	Number of tenders submitted	Number of tenders won	Success %
<i>For the year ended 31 December 2013</i>			
Tender Amount			
— Below RMB1 million	5	5	100%
— Above RMB1 million	<u>13</u>	<u>8</u>	62%
	<u><u>18</u></u>	<u><u>13</u></u>	72%

For the year ended 31 December 2014

Tender Amount			
— Below RMB1 million	7	6	86%
— Above RMB1 million	<u>23</u>	<u>9</u>	39%
	<u><u>30</u></u>	<u><u>15</u></u>	50%

For the six months ended 30 June 2015

Tender Amount			
— Below RMB1 million	1	0	0%
— Above RMB1 million	<u>8</u>	<u>5</u>	63%
	<u><u>9</u></u>	<u><u>5</u></u>	56%

Throughout the Track Record Period

Tender Amount			
— Below RMB1 million	13	11	85%
— Above RMB1 million	<u>44</u>	<u>22</u>	50%
	<u><u>57</u></u>	<u><u>33</u></u>	58%

Execution of contracts

After we are successful in our tender, we will review and negotiate the terms of formal contracts (either in form of a master contract or a bundle of contracts including construction contracts and/or equipment contracts) before we proceed to the execution of a contract with the customer. Please refer to the paragraph headed “Customers, Sales and Marketing — Salient Terms of Contracts with Customers” of this section for major terms of the contract with our customers.

Formation of a project execution team and project planning

Once a contract is awarded, a project execution team is formed. The size of our project execution team depends on the scope of services, complexity of the project and our available resources. Our project execution team typically consists of one project manager, one site engineers, one site administration officer and one safety supervisor. Our project execution team is principally responsible for the day-to-day implementation of the project and supervision of sub-contractor work.

Prior to commencement of a project, our project manager works with our engineering and technical department to review the project specifications, existing physical constraints and difficulties, identification of significant safety and environmental aspects and control, site layout and planned manpower and resources. Moreover, our project execution team initiates project meetings, organise site facilities and arranges for safety and environmental protection measures and our safety supervisor conducts safety training for the site staff prior to commencement of a project.

Project Implementation

Customised design

We undertake overall engineering design for our EPC projects. During the project design phase, we investigate and research the background of the project and discuss with the customers to understand their requirements and technical specifications with reference to the type of pollutants being treated, treatment method, scale of projects, applicable discharge standards, expected operating costs requirement and budget of customers, size of the site, design capacity, environmental conditions and meteorological conditions of the site. Our engineering and technical team will analyse, assess and determine the design and specifications of a system to ensure that our customers’ requirements are met.

For our equipment projects, our customers provide us details of the engineering design of the treatment facilities and drawings. Based on the details of engineering design provided by the customers, we provide technical advice and prepare a tailor-made proposal on the type of equipment and machinery necessary best suited for the projects. We believe that our tailor-made equipment proposal can upgrade or optimise the engineering design of the wastewater treatment facilities and ensure the customers are provided with equipment and machinery that meet their specific requirements.

Procurement of equipment and machinery

After the design and specifications of the system are finalised, our procurement department will proceed to purchase all necessary machinery and equipment required for the project. We may occasionally engage external sub-contractors to procure specialised machinery and equipment required

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for the project. Equipment and components required for the projects typically include pumps, metres, blowers, filters, valves, the electric control system, decelerators and mixing apparatus. Other equipment and components such as a grid screen, chemical dosage devices, reaction ponds, pipeline systems, dregs removal devices, sludge removal devices, aerators, condensation and dehydration devices require a high degree of customisation and will be purchased based on our equipment proposal with reference to their specific needs and technical specifications.

Construction and installation works (For EPC projects only)

We hire qualified sub-contractors mainly for carrying out the construction and installation works for the treatment facilities under our close supervision. The engineering and technical department is principally responsible for supervising our sub-contractors for construction and installation of the treatment systems. Installation of the machinery and treatment system will be performed at the customer's premises and inspection is performed after the machinery and equipment is delivered to the site. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, sub-contracting costs were RMB22.4 million, RMB16.1 million and RMB9.1 million, representing 47.5%, 18.6% and 19.9% of our costs of sales for the same periods. Please refer to the paragraph headed "Sub-contracting — Sub-contractors" of this section for further details of our sub-contractors and the sub-contracting arrangements.

Inspection, testing and commissioning

After the construction and installation works are completed, the systems will be examined by the customer prior to approval and acceptance. Our site administrative officers are responsible for assisting our project manager and site engineers to gather the data and information required for final inspection, testing and trial operation.

After completion of the construction and installation of the wastewater treatment facilities, the system will undergo continuous trial operations for such period as specified in the contract to examine their operational efficiency. Our customer or its supervisory representative may identify any issues which require rectification. If the test results are satisfactory, our customer and/or its supervisory representative will grant the acceptance certificate to us.

Maintenance/Warranty period

We offer our customers a warranty period which typically lasts for 12 months after the commissioning of the treatment systems. During the warranty period, we are responsible for rectifying any defects in the equipment and/or treatment systems. Such costs will be deducted from retention monies held by our customer until expiry of the warranty period. If the defect is related to the works performed by our sub-contractors or a breach of contract by our suppliers, the sub-contractor or supplier concerned will be liable to bear the costs for rectifying such defects. Our Group also provides free technical consulting advice to our customers on the operations, maintenance and management of the equipment or system during the warranty period. We also maintain contacts with our customers through site visits and discussions so as to maintain and enhance our relationship with customers. If there is no defect in the whole system after the expiry of the warranty period, the customer will release the retention monies to us.

Working capital management

We need working capital to run our EPC project business. We often need to settle with our suppliers and sub-contractors for the project costs before our customers pay us. Majority of the contract amounts are back-end payments which are settled by our customers when the project has been completed and the treatment facility has been tested and approved by the customer. However, we usually settle the project costs with suppliers and sub-contractors primarily based on the percentage of completion during the course of the project. Based on our past experience, we would usually have a cashflow deficit of around 15% – 20% of the entire project costs in the first 9 to 12 months of the project until it has been completed with customer's approval and final acceptance. Therefore, it is important that we have to regularly monitor our current and future liquidity requirements, in order to ensure sufficient cash and available bank facilities to meet the working capital requirement of the ongoing and new projects. In this regard, our financial controller prepares a 90-day rolling cashflow forecast for our Directors' review on a bi-weekly basis.

Anti-corruption measures for our projects

We are subject to anti-corruption laws of the PRC, including anti-corruption clauses stipulated in the Bidding Law of the PRC, in respect of our projects. In order to monitor our compliance with anti-corruption laws, regulations and policies, we have adopted the following internal control measures:

- We provide an employee handbook containing the code of conduct, and give proper training to all staff from time to time, to ensure their understanding of the importance of business ethics and our corporate policy of prohibiting any acts of corruption, including offer or receipt of bribe and kickbacks from our suppliers or customers, improper sales and business referrals, and misappropriation of assets of our Group.
- We segregate duties in the project tender process as well as during our project execution, where authorisation and record procedures amongst the accounting and finance department, procurement department, engineering and technical department and sale and marketing department are required at different stages of a project, with a view to promoting a system of checks and balances to prevent acts of corruption and fraud.
- We have a whistle-blowing system in place, where employees are encouraged to raise concerns on any potential corruption acts, misconduct, or malpractice related to our Group. Reports from employees is made directly to and handled by the head of human resources and administration department, who is responsible for conducting all necessary investigation (including the set up of a special investigation unit containing external professionals as and when needed) and providing the investigation report to the board of Directors for further action as appropriate. Upon the Listing, all relevant investigation reports will be handled by the audit committee of the Company comprising the independent non-executive Directors.

OUR PROJECT BACKLOG

The aggregate value of our project backlog represents the estimated total contract value of our work that remains to be completed as of a certain date. It should be noted that the value of our project backlog is an indicative figure only and is not a measure defined under HKFRSs. In addition, our

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methodology for determining the value of backlog may not be comparable to the methodology used by other companies. We cannot guarantee that our backlog will be translated into actual revenue or profits. Please refer to the section headed “Risk Factors — Risks relating to our Business — Projected revenue amounts reported in our backlog could fail to result in actual revenue or translate into profits” in this prospectus for more details.

The following table sets forth the aggregate value of our project backlog by the project type as at 30 June 2015:

	Number of projects	Value of project backlog <i>RMB'000</i>
<i>Wastewater/Drinking Water Treatment Projects</i>		
— EPC projects	4	35,980
— Equipment projects	3	35,924
<i>Other Environmental Protection Projects</i>		
— Construction project	1	40
<i>Technical Advisory Projects</i>	2	289
	10	72,233

Set out below are the key particulars of our project backlog as at 30 June 2015:

Date of signing	Project name	Business segment	Project category	Background information of the project owner	Our services	Full contract value <i>RMB'000</i>	Track Record Period <i>RMB'000</i>	Amount of revenue recognised during the Value of project backlog <i>RMB'000</i>	Estimated completion date <i>(Note 1)</i>
12 December 2012	Yihai Kerry Wastewater Treatment Project (益海嘉里污水處理項目)	Wastewater/Drinking water project	EPC project	A private industrial enterprise in Guangdong Province which is principally engaged in food processing and distribution	Construction of industrial wastewater treatment facility in Dongguan with an aggregate designed capacity of approximately 4,400m ³ per day	35,221	35,094	127	Completed in September 2015
19 April 2013	Lianzhong Project (聯眾項目)	Other environmental protection project	Construction project	A subsidiary of a state-owned industrial enterprise in Guangdong Province which is principally engaged in stainless steel production	Provision of site cleaning services for the sewage pool	163	123	40	Completed in September 2015
23 December 2013	Pacific Textiles (Vietnam) Wastewater Treatment Project (越南互太污水處理項目)	Wastewater/Drinking water project	EPC project	A textile company established in Vietnam	Construction of industrial wastewater treatment facility in Vietnam with an aggregate designed capacity of approximately 4,500m ³ per day	27,897	14,146	13,751	December 2015

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Date of signing	Project name	Business segment	Project category	Background information of the project owner	Our services	Amount of revenue recognised during the			Estimated completion date (Note 1)
						Full contract value RMB'000	Track Record Period RMB'000	Value of project backlog RMB'000	
7 May 2013	Fubin Drinking Water Treatment Project (富賓直飲水處理項目)	Wastewater/Drinking water project	EPC project	A private enterprise in Guangdong Province which is principally engaged in the property management	Construction of drinking water treatment facility for a residential estate in Guangdong Province	375	273	102	November 2015
14 October 2013	Hitachi Project (日立項目)	O&M/technical advisory services	Technical advisory project	A private enterprise in Guangdong Province which is principally engaged in the property management	Provision of technical advisory and maintenance services in relation to the constructed drinking water facilities	34	28	6	December 2015
24 April 2014	Shishi Project (石獅項目)	O&M/technical advisory services	Technical advisory project	A private enterprise based in Fujian Province which is principally engaged in the provision of wastewater engineering services and sales of related environmental equipment	Provision of technical advisory proposal in relation to the proposed construction of industrial wastewater treatment facility	283	Nil	283	December 2015
1 May 2014	Guangdong Yuedian Equipment Project (廣東粵電設備項目)	Wastewater/Drinking water project	Equipment project	A subsidiary of a state-owned industrial enterprise which is principally engaged in the provision of electric power	Procurement of equipment and machinery for a wastewater treatment facility in Guangdong Province with a designed capacity of approximately 7.2m ³ per day	226	Nil	226	December 2015
13 March 2015	Liaoning Anshan Equipment Project (遼寧鞍山設備項目)	Wastewater/Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Anshan City with a designed capacity of approximately 100,000m ³ per day	48,205	25,926	22,279	December 2015
14 April 2015	Changsha Jinxia Equipment Project (長沙金霞設備項目)	Wastewater/Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Changsha City with a designed capacity of approximately 180,000m ³ per day	28,205	14,786	13,419	December 2015
15 April 2015 (Note 2)	Li Keng Wastewater Treatment Project (李坑污水處理項目)	Wastewater/Drinking water project	EPC project	Government	Construction of industrial wastewater treatment facility in Guangzhou with a designed capacity of approximately 1,000m ³ per day	22,000	—	22,000	June 2016
						Total:			
						<u>72,233</u>			

Notes:

- The estimated completion date refers to the estimated time when the revenue from the respective projects are fully recognised.
- The project was awarded to us on 15 April 2015 with customer confirmation. The EPC contract of the project was subsequently signed on 8 October 2015.

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The following table sets forth the aggregate value of our project backlog by project type as at 31 October 2015:

	Number of projects	Value of project backlog (RMB'000)
<i>Wastewater/Drinking Water Treatment Projects</i>		
— EPC projects	4	30,811
— Equipment projects	3	25,964
— Construction project	1	1,589
<i>Technical Advisory Projects</i>	2	289
Total	10	58,653

Set out below are the key particulars of our project backlog as at 31 October 2015:

Date of signing	Project name	Business segment	Project category	Background information of the project owner	Our services	Amount of revenue recognised during the Track Record Period and		Value of project backlog	Estimated completion date
						Full contract value	up to 31 October 2015		
						RMB'000	RMB'000	RMB'000	(Note)
<i>Projects on hand as at 30 June 2015</i>									
12 December 2012	Yihai Kerry Wastewater Treatment Project (益海嘉里污水處理項目)	Wastewater/Drinking water project	EPC project	A private industrial enterprise in Guangdong Province which is principally engaged in food processing and distribution	Construction of industrial wastewater treatment facility in Dongguan with an aggregate designed capacity of approximately 4,400m ³ per day	35,221	35,221	—	Completed in September 2015
19 April 2013	Lianzhong Project (聯眾項目)	Other environmental protection project	Construction project	A subsidiary of a state-owned industrial enterprise in Guangdong Province which is principally engaged in stainless steel production	Provision of site cleaning services for the sewage pool	163	163	—	Completed in September 2015
23 December 2013	Pacific Textiles (Vietnam) Wastewater Treatment Project (越南互太污水處理項目)	Wastewater/Drinking water project	EPC project	A textile company established in Vietnam	Construction of industrial wastewater treatment facility in Vietnam with an aggregate designed capacity of approximately 4,500m ³ per day	27,897	26,044	1,853	December 2015
7 May 2013	Fubin Drinking Water Treatment Project (富賓直飲水處理項目)	Wastewater/Drinking water project	EPC project	A private enterprise in Guangdong Province which is principally engaged in the property management	Construction of drinking water treatment facility for a residential estate in Guangdong Province	375	273	102	November 2015
14 October 2013	Hitachi Project (日立項目)	O&M/technical advisory services	Technical advisory project	A private enterprise in Guangdong Province which is principally engaged in the property management	Provision of technical advisory and maintenance services in relation to the constructed drinking water facilities	34	28	6	December 2015

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Date of signing	Project name	Business segment	Project category	Background information of the project owner	Our services	Amount of revenue recognised during the Track Record Period and			Estimated completion date (Note)
						Full contract value RMB'000	up to 31 October 2015 RMB'000	Value of project backlog RMB'000	
24 April 2014	Shishi Project (石獅項目)	O&M/technical advisory services	Technical advisory project	A private enterprise based in Fujian Province which is principally engaged in the provision of wastewater engineering services and sales of related environmental equipment	Provide technical advisory proposal in relation to the proposed construction of industrial wastewater treatment facility	283	Nil	283	December 2015
1 May 2014	Guangdong Yuedian Equipment Project (廣東粵電設備項目)	Wastewater/Drinking water project	Equipment project	A subsidiary of a state-owned industrial enterprise which is principally engaged in the provision of electric power	Procurement of equipment and machinery for a wastewater treatment facility in Guangdong Province with a designed capacity of approximately 7.2m ³ per day	226	Nil	226	December 2015
13 March 2015	Liaoning Anshan Equipment Project (遼寧鞍山設備項目)	Wastewater/Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Anshan City with a designed capacity of approximately 100,000m ³ per day	48,205	32,176	16,029	December 2015
14 April 2015	Changsha Jinxia Equipment Project (長沙金霞設備項目)	Wastewater/Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Changsha City with a designed capacity of approximately 180,000m ³ per day	28,205	18,496	9,709	December 2015
15 April 2015	Li Keng Wastewater Treatment Project (李坑污水處理項目)	Wastewater/Drinking water project	EPC project	Government	Construction of industrial wastewater treatment facility in Guangzhou with a designed capacity of approximately 1,000m ³ per day	22,000	Nil	22,000	June 2016
						Subtotal:		50,208	

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Date of signing	Project name	Business segment	Project category	Background information of the project owner	Our services	Amount of revenue recognised during the Track Record Period and		Value of project backlog	Estimated completion date
						Full contract value	up to 31 October 2015		
						RMB'000	RMB'000	RMB'000	(Note)
<i>New projects entered into subsequent to the Track Record Period and up to 31 October 2015</i>									
15 July 2015	Shandong Rizhao Equipment Project (山東日照設備項目)	Wastewater/Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a municipal wastewater treatment facility in Rizhao City with a designed capacity of 40,000m ³ per day	10,079	10,079	—	Completed in September 2015
30 July 2015	Xiqiao Equipment Project (西樵設備項目)	Wastewater/Drinking water project	Equipment project	Government	Procurement of equipment and machinery for a industrial wastewater treatment facility in Foshan City with a designed capacity of 15,000m ³ per day	16,094	16,094	—	Completed in October 2015
30 July 2015	Xiqiao Construction Project (西樵安裝工程項目)	Wastewater/Drinking water project	Construction project	Government	Installation of equipment and machinery procured for Xiqiao Equipment Project	1,589	Nil	1,589	December 2015
22 September 2015	Nansha Project (南沙項目)	Wastewater/Drinking water project	EPC project	A private industrial enterprise in Guangdong Province which is principally engaged in textile manufacturing	Construction of ancillary facilities for a industrial wastewater treatment facility	6,856	Nil	6,856	March 2017
						Subtotal:		8,445	
						Total:		58,653	

Note: The estimated completion date refers to the estimated time when the revenue from the respective projects are fully recognised.

CUSTOMERS, SALES AND MARKETING

Customers

Our customers cover different industries mainly including municipal wastewater treatment, food processing, textile and chemical manufacturing. Our EPC project customers are usually industrial enterprises whilst equipment project customers are usually BOT operators for municipal wastewater treatment projects.

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Since our wastewater treatment engineering business is primarily project-based, our customers tend to vary from period to period. The table below sets forth a summary of our five largest customers for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015:

For the year ended 31 December 2013

	Business segment	Project category	No. of project(s) undertaken by us during the year	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Credit period (day)	Revenue RMB'000	% of total revenue
東莞益海嘉里賽瑞澱粉科技 有限公司 (Dongguan Yihai Kerry Syral Starch Technology Co., Ltd.) (“Yihai Kerry Syral”) (Note 1)	Wastewater/Drinking water projects	EPC project	1	3	30	22,876	36.4
廣東柏力機電工程有限公司 (Guangdong Boli Electromechanical Engineering Co., Ltd.) (“Guangdong Boli”) (Note 2)	Other environmental protection projects	Equipment and flue gas projects	2	2	30	19,256	30.6
廣東惠雲鈦業股份有限公司 (Guangdong Huiyun Titanium Industry Corporation Limited) (“Huiyun Titanium”) (Note 3)	Wastewater/Drinking water projects	EPC project	1	3	30	11,419	18.2
廣東省環境工程裝備總公司 (Guangdong Province Environmental Engineering & Equipment Co., Ltd.) (“Guangdong Environmental”)(Note 4)	Wastewater/Drinking water projects	EPC project	1	2.5	30	7,482	11.9
建興光電科技(廣州)有限公司 (Lite-On Opto Technology (Guangzhou) Co., Ltd.) (“Lite-On”)(Note 5)	Wastewater/Drinking water projects	O&M	1	12.5	30	360	0.6
Total						61,393	97.7

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Notes:

1. Yihai Kerry Syral is a private industrial enterprise in Guangdong Province which is principally engaged in food processing and distribution.
2. Guangdong Boli is a private industrial enterprise in Guangdong Province which is principally engaged in mechanical and electrical engineering services.
3. Huiyun Titanium is a private industrial enterprise in Guangdong Province which is principally engaged in production and processing of titanium chemicals.
4. Guangdong Environmental is a privately-owned environmental protection and equipment service provider in Guangdong Province.
5. Lite-On is a private industrial enterprise in Guangdong Province which is principally engaged in manufacturing of electronic devices and components.

For the year ended 31 December 2014

	Business segment	Project category	No. of project(s) undertaken by us during the year	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Credit period (day)	Revenue RMB'000	% of total revenue
Guangdong Boli	Other environmental protection projects	Equipment and flue gas projects	2	2	30	19,686	16.1
中建三局集團有限公司 (China Construction Third Engineering Bureau Group Co., Ltd.) (“China Construction”) <i>(Note 1)</i>	Wastewater/Drinking water projects	Equipment project	1	1.5	30	19,286	15.8
廣州市平合環保技術有限公司 (Guangzhou Pinghe Environmental Protection Technology Co., Ltd.) (“Guangzhou Pinghe”) <i>(Note 2)</i>	Wastewater/Drinking water projects	Equipment project	2	1	30	16,911	13.8

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	Business segment	Project category	No. of project(s) undertaken by us during the year	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Credit period (day)	Revenue RMB'000	% of total revenue
東營北控水務有限公司 (Dongying Beijing Enterprises Water Co., Ltd.) ("Dongying BEW") ^(Note 3)	Wastewater/Drinking water projects	Equipment project	1	2	30	15,778	12.9
Pacific Crystal ^(Note 4)	Wastewater/Drinking water projects	EPC project	1	2	30	10,715	8.8
Total						82,376	67.4

Notes:

1. China Construction is a subsidiary of a state-owned enterprise in the PRC, principally engaged in construction and engineering business.
2. Guangzhou Pinghe is a private enterprise in Guangdong Province which is principally engaged in environmental protection engineering business and related installation works. Guangzhou Pinghe was also one of our top five sub-contractors for the year ended 31 December 2013 and the six months ended 30 June 2015.
3. Dongying BEW is municipal wastewater treatment operator in the PRC, and is a subsidiary of a state-owned wastewater solution provider listed on the main board of the Stock Exchange.
4. Pacific Crystal is a textile company established in Vietnam and is a subsidiary of a company listed on the Stock Exchange.

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For the six months ended 30 June 2015

	Business segment	Project category	No. of project(s) undertaken by us during the period	Approximate year(s) of business relation with our Group as at the Latest Practicable Date	Credit period (day)	Revenue RMB'000	% of our total revenue
北控(鞍山)水務有限公司 (Beijing Enterprises (Anshan) Water Co. Ltd.) ("Anshan BEW") ^(Note 1)	Wastewater/Drinking water projects	Equipment project	1	0.5	30	25,926	41.1
長沙中科成污水淨化有限公司 (Changsha Zhongkecheng Sewage Sanitisation Co., Ltd.) ("Changsha ZKC") ^(Note 1)	Wastewater/Drinking water projects	Equipment project	1	0.5	30	14,786	23.4
武漢都市環保工程技術股份有限公司 (Wuhan Urban Environmental Engineering Technology Co., Ltd.) ("Wuhan Urban") ^(Note 2)	Other environmental protection projects	Soil remediation project	1	2	30	10,065	16.0
常德北控制水有限公司 (Changde Beijing Enterprises Water Co. Ltd.) ("Changde BEW") ^(Note 1)	Wastewater/Drinking water projects	Equipment project	1	0.5	30	4,197	6.7
Pacific Crystal	Wastewater/Drinking water projects	EPC project	1	2	30	3,431	5.4
Total						58,405	92.6

Notes:

1. Anshan BEW, Changsha ZKC and Changde BEW are subsidiaries of a state-owned wastewater solution provider listed on the main board of the Stock Exchange. Nevertheless, the relevant contract negotiation was conducted individually with the respective responsible person of each of these entities, and, therefore, we treat each of these entities as an independent separate customer.
2. Wuhan Urban is a subsidiary of a state-owned enterprise in the PRC which is principally engaged in the environment protection business.

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Our five largest customers accounted for RMB61.4 million, RMB82.4 million and RMB58.4 million, representing 97.7%, 67.4% and 92.6% of our total revenue for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. Our revenue from our largest customer amounted to RMB22.9 million, RMB19.7 million and RMB25.9 million, representing 36.4%, 16.1% and 41.1% of our total revenue for the corresponding periods respectively.

We have been very careful in choosing our customers. Most of our major customers are listed companies or leading industrial enterprises in a particular region which maintain good reputation in the market. Due to the nature of our business, which is project-based, and the fact that revenue collection is always slower than cost settlement during the course of a project, we are particularly concerned with, for projects with industrial customers, the viability of their core business and, for government sponsored public facilities projects in which we usually provide procurement services, the credibility and track record of the BOT project companies (or their sub-contractors), in order to avoid incurring unrecoverable expenditure or bad debts. Since wastewater treatment is an area which is highly regulated by the government, we believe our customers, whether being a BOT project company or an industrial enterprise, would make sure to see the project through to the end satisfactorily. This reduces the risk that the project would be called off halfway. During the Track Record Period, we did not experience any project cancellation after commencement of our work, and did not record any impairment on our receivables.

All of our five largest customers during the Track Record Period are Independent Third Parties. None of our Directors, their respective close associates or Shareholders who own more than 5% of the issued share capital of our Company as at the Latest Practicable Date has any interest in any of the five largest customers of our Group during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, our Group had no dispute with or claim from our customers which would have had a material impact on our business, financial condition or results of operations.

Salient terms of contracts with customers

While the specific contractual terms vary from one project to another, the following summarises the typical contractual terms in our EPC projects and equipment projects. We do not enter into any long-term master contract with any of our customers. There is no exclusivity term specified in each of the project contracts. We are therefore allowed to provide services to any customer without prior consent from our existing customers.

Scope of services and contractual specifications

Our service contracts with customers set out the scope of services, technical and equipment specifications, operational requirements of the treatment facility, the stipulated quality of the output treated water or wastewater by reference to the maximum level of specific pollutants, the expected project management team structure and other rights and obligations under the contract.

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Project schedule

Our standard contract stipulates the target date for project milestones, such as project commencement, delivery and installation of major treatment facilities, testing and final completion.

Typically, EPC projects require, on average approximately 18 months to complete and equipment projects typically last for, on average, approximately 16 months.

Payment terms

For EPC projects, we usually require customers to make an upfront payment of around 10% of the contract amount when signing the contract, pay around 30% when the equipment and machinery has been delivered to the work site, 50% deducting the retention monies upon final acceptance of the treatment facilities, with 10% as retention monies.

For equipment projects, an upfront payment of around 30% of the contract amount is usually required when the contract is signed and another 30% is due when the equipment and machinery is delivered to the work site. The remaining 30% (after deducting the retention monies) is payable upon final acceptance and commissioning of the treatment facilities, with around 5% to 10% as retention monies.

Warranty period and retention monies

We usually provide a warranty period of 12 months after completion of the project. Where any defects are identified during the warranty period, we will arrange the relevant sub-contractor or supplier to rectify the defects at their own cost. Our customers generally retain around 5% to 10% of the total contract amount as retention monies, which is payable to us in full upon the expiry of the warranty period. Our Directors confirm that during the Track Record Period, we have not experienced any material deductions from the retention monies.

Penalty payment

If a project is delayed through no fault of ours, for example, due to adverse weather, substantial changes in the design of the facility requested by the customer or any breach of contract by customers during implementation of project, our customers usually grant us an extension. However, if the delay is due to our own fault, we are usually required to make penalty payments to our customer, typically at an agreed rate under the contract. Our Directors confirm that during the Track Record Period, we did not pay any penalty to our customers due to project delay.

Indemnity for breach

We are required to indemnify our customers for failure to meet the technical specifications of the project under the contract. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, our Group had not received any legal claims from customers due to quality defects or non-compliance with discharge standards prescribed by PRC law.

Our Pricing Policy and Credit Policy

Pricing policy

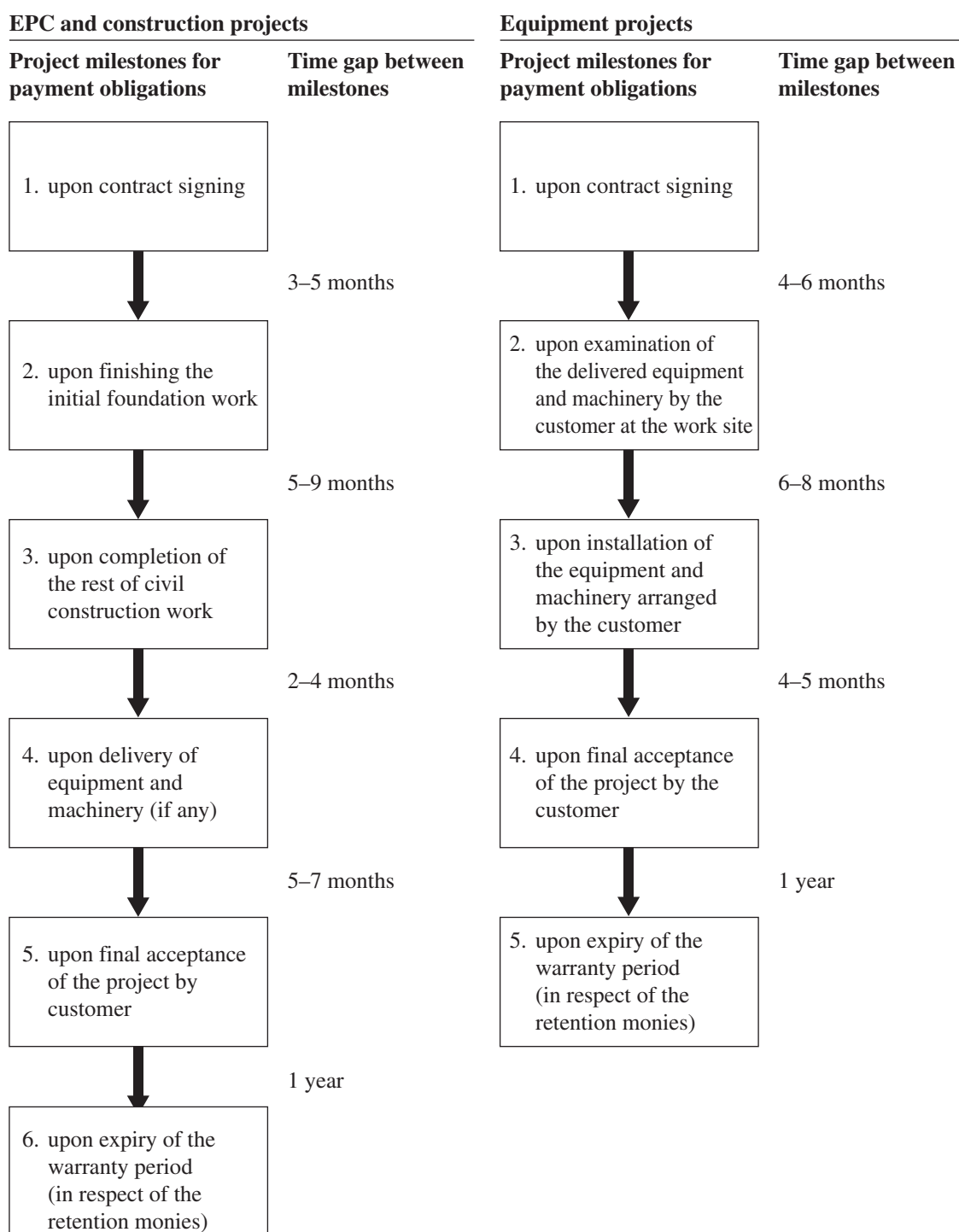
Our pricing policy is basically a cost plus approach. The major cost elements in EPC or equipment projects are sub-contracting costs (for construction and/or installation), as well as equipment and machinery costs. Taking into consideration (i) the size of the project, (ii) complexity of the technical project requirements as reflected in the number of man hours spent by our engineering and technical team, (iii) reputation and background of the customer and (iv) market competition, we would determine an appropriate margin for the project.

Credit policy

We do not have a standard credit policy for our customers. The credit term granted to each customer is mainly reflected in the progress payment schedule, which is linked with the project milestones as specified in the contract. Upon the achievement of each project milestone, we are entitled to receive from the customer the relevant portion of the contract amount pursuant to the payment schedule. Depending on our assessment of the creditworthiness of the customer, we would determine the percentage of contract payment for each project milestone to negotiate with the customer before contract signing. For instance, a customer whom we perceive as having a higher credit standing would be allowed to settle a smaller portion of the contract amount at the front end of the project cycle than a customer whom we perceive has a lower credit standing.

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Listed below are the usual project milestones used in our EPC and equipment project contracts.



We have standard procedures to follow for examining the creditworthiness of our customers. Prior to our acceptance of an engagement from a new customer, our sales and marketing staff would perform searches on public records to understand its history, background, business scale and financial standing, and may conduct credit and legal searches as and when necessary to assess its creditworthiness and to identify if the customer is subject to any administrative penalty, litigation and unsettled tax disputes.

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Our sales and marketing staff, together with the engineering and technical staff, also conduct preliminary on-site inspection to understand the actual operation of the customer. Based on the information gathered, our senior management would assess whether the customer can be accepted, and determine the contract payment schedule offered to the customer for consideration.

For recurring customer, we would review internal records regarding its payment history and any dispute record with us before we would continue to conduct new business with it. During the course of project, our on-site engineers would also assist our senior management to monitor and observe the overall business operations at customer's work site and report any abnormality in respect of customer's business operations or the overall project from time to time. Furthermore, our senior management would regularly interact with our customers to provide update on work progress, as well as to follow up on the overdue balances, if any. All these procedures provide us timely information as to whether impairment allowance for doubtful debts should be made.

Generally, the credit period we grant to customers is 30 days from the date of invoice, but can be extended up to the date of final acceptance of the whole projects for certain customers. In particular, for the equipment projects, we usually invoice our customer for the full contract amount of the equipment and machinery when the relevant equipment and machinery delivered to the work site has been examined and accepted by the customer, whilst the settlement of such invoice is by instalments based on the project milestones specified in the contract. This explains why we had some long outstanding receivables which were not past due at the financial reporting dates during the Track Record Period. For the equipment projects we undertook during the Track Record Period, the time gap between revenue recognition and entire invoice settlement (excluding the settlement of retention monies), ranged from approximately 80 days to 400 days. In addition, for some customers, particularly state-owned enterprises, who need to go through lengthy internal payment approval procedures, to settle the outstanding balances when the payment obligation arises, we may grant an extension beyond the normal credit period by up to 90 days, at our senior managements discretion taking into account the customer's background and its creditworthiness on a case-by-case basis.

It is our Group's policy for our accounting and finance department to monitor trade receivables collection and perform a regular ageing analysis and specific recoverability review of individual debtor with outstanding balance. The identification of doubtful debts requires management judgement and estimates. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the receivable asset is impaired. Our average debtors turnover days were 101.1 days, 141.3 days and 208.7 days for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. As at 31 December 2013, 31 December 2014 and 30 June 2015, our outstanding trade and bill receivables were RMB24.1 million, RMB70.6 million and RMB75.6 million, respectively, among which, retention monies receivables amounted to RMB748,000, RMB1.8 million and RMB2.8 million, respectively. For those projects which are still within the warranty period, our customers are entitled to retain the retention monies and hence are not obliged to settle the outstanding balances. During the Track Record Period, our Group had not experienced any difficulties in collecting trade debts from our customers. Our Directors are of the view that the trade and bills receivables as at 30 June 2015 were either not past due or subsequently settled by the customers, and hence we have not recorded any impairment losses on trade receivables. For further analysis of our trade receivables turnover days, please refer to the section headed "Financial Information — Certain Selected Statements of Financial Position Line Items — Trade and Bill Receivables" of this prospectus.

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Marketing and sales

Due to our proven track record and our well-established relationship with existing customers, we are able to rely on our existing customer base, reputation and customer referrals for new and repeated businesses. Apart from liaising and maintaining relationships with existing customers, our sales and marketing team is responsible for gathering and analysing regional market information, developing target markets and identifying new tender opportunities.

As at the Latest Practicable Date, we had four sales and marketing personnel headed by Mr. Shi Zhan Kun, whose qualifications and experience are set out in the section headed “Directors, Senior Management and Staff” of this prospectus. Our sales team monitors information from industry news and utilises our connections with local government to identify new business opportunities. Our reputation and proven track record also results in referrals for tender opportunities from our existing or previous customers. We also market our services through participation in industry events, seminars or exhibitions.

SUPPLIERS

Procurement of equipment and machinery

We engage suppliers in the PRC for the supply of equipment and machinery for the construction of wastewater treatment systems and other equipment for other environmental protection projects. Standard equipment and machinery mainly include pumps, metres, blowers, filters, valves, electric control system, decelerators, mixing apparatus, grid screen, chemical dosage devices, reaction ponds, pipeline systems, dregs removal devices, sludge removal devices, aerators, condensation and dehydration devices.

We conduct due diligence on our suppliers and choose them based on their reputation, technical qualifications, track record and feedback from their customers. We maintain a list of those suppliers that meet our criteria, which we review annually, removing any suppliers that fail to meet our standards and adding new qualified suppliers to our list.

In the event that we need to obtain equipment from suppliers who are not on our approved list, we will evaluate the reliability of such a supplier by checking its certifications, product samples and track records. Although we do not enter into any long-term purchase agreements with any suppliers, we do not foresee any difficulties in arranging replacement of suppliers if necessary, as the items we purchase are usually readily available from different alternative suppliers in the market.

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Details of our five largest suppliers for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 are summarised as follows:

For the year ended 31 December 2013

	Service supplied/ products purchased	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Average credit period <i>(Note 6)</i> <i>(day)</i>	Cost of sales <i>RMB'000</i>	% of total cost of sales %
Supplier A ^(Note 1)	Provision of the desulfurisation and denitration control systems	2	35	8,387	17.8
Supplier B ^(Note 2)	Provision of the wastewater treatment related equipment	2	45	2,715	5.8
Supplier C ^(Note 3)	Provision of the wastewater treatment related equipment	2.5	43	2,292	4.9
Supplier D ^(Note 4)	Provision of prepainted galvanised steel coils to be used for its wastewater treatment engineering projects	2	90	1,381	2.9
Supplier E ^(Note 5)	Provision of the wastewater treatment related equipment	2.5	38	1,368	2.9
Total				16,143	34.3

Notes:

- Supplier A is a private enterprise in Hubei Province which is principally engaged in sales and engineering design of desulfurisation and denitration control systems, mainly responsible for Yihai Kerry Thermal Power Plant Equipment Project.
- Supplier B is a private enterprise in Jiangsu Province which is principally engaged in sales and manufacturing of wastewater treatment related equipment, mainly responsible for Yihai Kerry Thermal Power Plant Equipment Project.
- Supplier C is a private enterprise in Guangdong Province which is principally engaged in the sales, manufacturing and engineering design of wastewater treatment related equipment, mainly responsible for Zhujiang Project.
- Supplier D is a private enterprise in Shandong Province which is principally engaged in manufacturing and processing of steel related products, mainly responsible for Huiyun Titanium Industrial Wastewater Treatment Project.
- Supplier E is a private enterprise in Shandong Province which is principally engaged in sales and manufacturing of wastewater treatment related equipment, mainly responsible for Huiyun Titanium Industrial Wastewater Treatment Project.
- Our payments to our five largest suppliers were generally by way of instalments upon the achievement of project milestones as specified in the contract, whilst credit terms in every instalments granted to us typically ranged from 30 to 90 days. In general, our suppliers agree to extend the due date for certain stage of settlement, which is in line with the billing schedule with our customers. The average credit period is calculated as the sum of credit terms granted to us in every instalments, divided by the total number of instalments.

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For the year ended 31 December 2014

	Service supplied/ products purchased	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Average credit period <i>(Note 5)</i> <i>(day)</i>	Cost of sales <i>RMB'000</i>	% of total cost of sales
Supplier F ^(Note 1)	Provision of the electrical control equipment	1	38	4,963	5.7
Supplier G ^(Note 2)	Provision of the wastewater treatment related equipment	1.5	45	4,487	5.2
Supplier C	Provision of the wastewater treatment related equipment	2.5	35	3,844	4.4
Supplier H ^(Note 3)	Provision of the wastewater treatment related equipment	1.5	45	3,684	4.3
Supplier I ^(Note 4)	Provision of the electrical control equipment	1	38	2,837	3.3
Total				<u>19,815</u>	<u>22.9</u>

Notes:

1. Supplier F is a private enterprise in Hubei Province which is principally engaged in sales and trading of electrical control equipment, mainly responsible for a wastewater equipment project.
2. Supplier G is a private enterprise in Shanghai which is principally engaged in sales and manufacturing of wastewater treatment related equipment, mainly responsible for Beijing Liangshuihe Equipment Project.
3. Supplier H is a private enterprise in Guangdong Province which is principally engaged in sales and manufacturing of wastewater treatment related equipment, mainly responsible for Dongying North Dongcheng Public District Equipment Project.
4. Supplier I is a private enterprise in Shanghai which is principally engaged in sales of electrical control equipment, mainly responsible for Yueyang Hubin Equipment Project.
5. Our payments to our five largest suppliers were generally by way of instalments upon the achievement of project milestones as specified in the contract, whilst credit terms in every instalments granted to us typically ranged from 30 to 90 days. In general, our suppliers agree to extend the due date for certain stage of settlement, which is in line with the billing schedule with our customers. The average credit period is calculated as the sum of credit terms granted to us in every instalments, divided by the total number of instalments.

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For the six months ended 30 June 2015

	Service supplied/ products purchased	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Average credit period <i>(Note 6)</i> <i>(day)</i>	Cost of sales <i>RMB'000</i>	% of total cost of sales
Supplier J ^(Note 1)	Provision of the valves and other related products	1.5	41	3,806	8.3
Supplier K ^(Note 2)	Provision of the electrical control equipment	1.5	35	3,354	7.3
Supplier L ^(Note 3)	Provision of blower fan	0.5	45	2,821	6.2
Supplier M ^(Note 4)	Provision of measuring instruments	1.5	38	2,703	5.9
Supplier N ^(Note 5)	Provision of the pumps	0.5	40	<u>2,525</u>	<u>5.5</u>
Total				<u>15,209</u>	<u>33.2</u>

Notes:

1. Supplier J is a private enterprise based in Jiangsu Province which is principally engaged in sales and manufacturing of environmental protection equipment, mainly responsible for Changsha Jinxia Equipment Project.
2. Supplier K is a private enterprise based in Sichuan Province which is principally engaged in sales and manufacturing of electrical control equipment, mainly responsible for Liaoning Anshan Equipment Project.
3. Supplier L is a private enterprise based in Liaoning Province which is principally engaged in sales of environmental protection equipment, mainly responsible for Liaoning Anshan Equipment Project.
4. Supplier M is a private enterprise based in Beijing which is principally engaged in sales and manufacturing of measuring instrument, mainly responsible for Liaoning Anshan Equipment Project.
5. Supplier N is a privately-owned foreign enterprise which is principally engaged in sales and manufacturing of pumps, mainly responsible for Liaoning Anshan Equipment Project.
6. Our payments to our five largest suppliers were generally by way of instalments upon the achievement of project milestones as specified in the contract, whilst credit terms in every instalments granted to us typically ranged from 30 to 90 days. In general, our suppliers agree to extend the due date for certain stage of settlement, which is in line with the billing schedule with our customers. The average of days in credit period is calculated as the sum of credit terms granted to us in every instalments, divided by the total number of instalments.

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, our cost of sales from the five largest suppliers were 34.3%, 22.9% and 33.2% respectively of our total cost of sale, while our cost of sales from the largest supplier amounted to 17.8%, 5.7% and 8.3% respectively of our total cost of sale. No long-term contracts had been entered into between our Group and our five largest suppliers during the Track Record Period. Our Directors confirm that we did not have any significant dispute with any of our suppliers during the Track Record Period.

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None of our Directors, their respective close associates or Shareholders who own more than 5% of the issued share capital of our Company as at the Latest Practicable Date has any interest in any of our five largest suppliers during the Track Record Period.

During the Track Record Period, our purchases were mainly settled in RMB (save for the purchases for our Vietnamese Project which is settled in VND) and most of them were settled by bank remittance.

Salient terms of purchase contracts

The purchase contracts generally include provisions relating to the description of the items ordered, time of delivery, contract value, payment terms as well as a standard indemnity clause. The payment terms granted by each of our suppliers vary. In general, we pay an initial deposit of approximately 10% to 30% of the total contract value upon signing of the contract, with the remaining balance settled in instalments, namely upon delivery, installation and final testing and approval of the equipment. Our contracts with the suppliers generally provide for a one-year warranty period for the purchased equipment. We generally retain around 5% to 10% of the total contract value as retention monies during the warranty period.

The purchases of our Group are mainly from suppliers in the PRC. Our Group's purchases were generally denominated in RMB and most of them were settled by bank remittance. Our suppliers typically grant us a credit period of 30 to 90 days. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, the average trade payable turnover days were 111.1 days, 152.0 days and 210.6 days respectively.

Our Inventory Policy

We purchase the necessary equipment and machinery on a project basis in accordance with the specification of a project.

The inventory balance as at 31 December 2013 and 2014, and 30 June 2015 amounting to RMB3.8 million, RMB3.4 million and RMB6.9 million respectively, represented the value of ordered goods delivered to our customers' work site but not yet inspected and accepted by the customers.

SUB-CONTRACTING

Sub-contractors

For our EPC projects, we engage sub-contractors for civil construction and equipment installation work under the close supervision and management of our project management team. We may also sub-contract a portion of procurement work to a third party for sourcing parts, equipment and machinery. For our soil remediation projects, we also engage sub-contractors for solid waste collection, solid waste incineration and transportation services.

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We select our sub-contractors on a project-by-project basis, based on our assessment of the following factors:

- the sub-contractor must possess the requisite managerial capability, qualification for construction of the project as well as the requisite know-how on wastewater treatment technologies;
- the sub-contractor must have satisfactory past performance and experience in project construction;
- the sub-contractor must have the financial strength to engage in such project; and
- the prices and quality of services.

During the Track Record Period, details of our five largest sub-contractors are summarised as follows:

For the year ended 31 December 2013

	Service supplied/ products purchased	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Credit period (day)	Sub- contracting costs RMB'000	% of total cost of sales %
Sub-contractor A <i>(Note 1)</i>	Provision of wastewater treatment facilities construction services	2.5	30-90	12,495	26.5
Sub-contractor B ^(Note 2)	Provision of wastewater treatment facilities construction services	2	30-90	4,184	8.9
Sub-contractor C ^(Note 3)	Provision of wastewater treatment facilities construction services	2.5	30-90	3,302	7.0
Sub-contractor D/ Supplier A ^(Note 4)	Provision of the desulfurisation and denitration control systems installation works	2	30-90	2,170	4.6
Sub-contractor E ^(Note 5)	Provision of wastewater treatment related equipment and its installation services	2.5	30-90	114	0.3
Total				<u>22,265</u>	<u>47.3</u>

Notes:

1. Sub-contractor A is a private company in Guangdong Province which is principally engaged in sales and installation of equipment and construction business, mainly responsible for Yihai Kerry Wastewater Treatment Project.

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2. Sub-contractor B is a private company in Guangdong Province which is principally engaged in provision of various construction engineering services, mainly responsible for Yihai Kerry Wastewater Treatment Project.
3. Sub-contractor C is a private company in Hunan Province which is principally engaged in provision of various construction engineering services, mainly responsible for Huiyun Titanium Industrial Wastewater Treatment Project.
4. Sub-contractor D is a private enterprise in Hubei Province which is principally engaged in sales and engineering design of desulfurisation and denitration control systems, mainly responsible for Yihai Kerry Thermal Power Plant Construction Project. Sub-contractor D is also Supplier A.
5. Sub-contractor E is Guangzhou Pinghe, a private enterprise in Guangdong Province principally engaged in environmental protection engineering business and related installation works, mainly responsible for Zhujiang Project. Guangzhou Pinghe was also one of the top five customers for the year ended 31 December 2014.

For the year ended 31 December 2014

	Service supplied/ products purchased	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Credit period (day)	Sub- contracting costs RMB'000	% of total cost of sales %
Sub-contractor F ^(Note 1)	Provision of wastewater treatment facilities construction services	1.5	30-90	10,302	11.9
Sub-contractor A	Provision of wastewater treatment facilities construction services	2.5	30-90	2,205	2.5
Sub-contractor G ^(Note 2)	Provision of the anti-corrosion services	2	30-90	1,094	1.3
Sub-contractor H ^(Note 3)	Provision of the installation works of wastewater treatment facilities	8	30-90	920	1.1
Sub-contractor I ^(Note 4)	Provision of wastewater treatment related equipment and its installation services	1.5	30-90	701	0.8
Total:				<u><u>15,222</u></u>	<u><u>17.6</u></u>

Notes:

1. Sub-contractor F is a subsidiary of a state-owned company which is principally engaged in the provision of construction engineering services, mainly responsible for Pacific Textiles (Vietnam) Wastewater Treatment Project.
2. Sub-contractor G is a private company in Jiangxi Province which is principally engaged in the provision of anti corrosion engineering services, mainly responsible for Huiyun Titanium Industrial Wastewater Treatment Project.

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3. Sub-contractor H is a private company in Jiangsu Province which is principally engaged in sales and installation of environmental protection equipment, mainly responsible for Huiyun Titanium Industrial Wastewater Treatment Project.
4. Sub-contractor I is a private company in Guangdong Province which is principally engaged in the manufacturing and installation of wastewater treatment related equipment, mainly responsible for Yihai Kerry Wastewater Treatment Project.

For the six months ended 30 June 2015

	Service supplied/ products purchased	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Credit period (day)	Sub- contracting costs RMB'000	% of total cost of sales %
Sub-contractor J ^(Note 1)	Provision of solid waste collection services	1	30-90	3,101	6.8
Sub-contractor F	Provision of wastewater treatment facilities construction services	1.5	30-90	2,440	5.3
Sub-contractor K ^(Note 2)	Provision of solid waste incineration services	1	30-90	1,743	3.8
Sub-contractor A	Provision of wastewater treatment facilities construction services	2.5	30-90	729	1.6
Sub-contractor L ^(Note 3)	Provision of transportation service for soil remediation projects	1	30-90	705	1.5
Total:				<u>8,718</u>	<u>19.0</u>

Notes:

1. Sub-contractor J is a private company in Guangdong Province which is principally engaged in the provision of building construction services, mainly responsible for Financial City Soil Remediation Project.
2. Sub-contractor K is a private company in Guangdong Province which is principally engaged in the sales and production of cement, mainly responsible for Financial City Soil Remediation Project.
3. Sub-contractor L is a private company in Guangdong Province which is principally engaged in the provision of building construction and logistics services, mainly responsible for Financial City Soil Remediation Project.

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, sub-contracting costs attributable to the five largest sub-contractors were 47.3%, 17.6% and 19.0% respectively of our total cost of sale, while sub-contracting costs attributable to the largest sub-contractor were 26.5%, 11.9% and 6.8% respectively of our total cost of sale. No long-term contracts

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had been entered into between our Group and our five largest sub-contractors during the Track Record Period. Our Directors confirm that we did not have any significant dispute with any of our sub-contractors during the Track Record Period.

None of our Directors, their respective close associates or Shareholders who own more than 5% of the issued share capital of our Company as at the Latest Practicable Date has any interest in any of our five largest sub-contractors during the Track Record Period.

During the Track Record Period, our sub-contracting costs were all settled in RMB (except the sub-contracting costs for our Vietnamese Project which is settled in VND) and most of them were settled by bank remittance.

Salient terms of the sub-contracting agreement

The salient terms of sub-contracting agreement with our sub-contractors are set out below:

- *Sub-contracting fee and payment term:* The sub-contracting fee, which covers all the direct labour and necessary material costs to carry out the sub-contracting work, is typically represented by a fixed sum unless there is a design change or additional work to be performed by the sub-contractor with our prior consent. Upon the execution of the sub-contract, we usually pay an upfront payment of 10% to 30% of the contract value and, thereafter, the sub-contractor invoices us for the remaining balance in two to three instalments based on the progress of their work. We inspect and verify the work done before making payments. We usually retain 5% to 10% of the project sum for a warranty period for 12 months after the completion of their work and such sum will be settled and released to the sub-contractor upon resolving any outstanding claims for defective construction work or expiry of the warranty period.
- *Termination events:* We may terminate the sub-contracting agreement if the sub-contractor (i) fails to carry out the work in accordance with the terms of the sub-contracting agreement; (ii) further sub-contracts the work to a third party without our consent; and (iii) delays carrying out the work without reasonable cause.
- *Sourcing of construction materials:* Sub-contractors are generally required to source the necessary construction materials and they are required to bear the risk of any increase in prices of such construction materials.
- *Sub-contractor indemnity:* Sub-contractors provide warranties in respect of the quality and timely completion of their work in the construction contract. In the event of any delay or poor quality of work, the sub-contractor is required to repair the defective works and may be required to pay damages to us under the relevant construction contract.
- *Compliance of safety and environmental laws:* Sub-contractors are responsible for carrying out the works in accordance with all relevant safety, health and environmental laws, rules and regulations. In the event of any non-compliance, the relevant sub-contractor shall bear all the liabilities, losses, costs and expenses resulting from such non-compliance.

Control over sub-contractor(s)

We adopt the following internal control measures to control and manage the performance of our sub-contractor(s):

- *Prevention of unauthorised sub-contracting:* A sub-contractor is prohibited from further sub-contracting the construction work to a third party without our consent. In the event that a sub-contractor is in breach of such restriction, we are entitled to terminate the sub-contracting agreement and the sub-contractor is required to indemnify us against any loss and damages resulting from such breach.
- *Constant monitoring and inspection:* Our project manager conducts daily inspection on the work performance of the sub-contractor and their employees. Review meeting is held to review work progress on a regular basis and discuss site safety, environmental compliance issues, customers' complaints and any work defect which requires corrective action.
- *Safety training:* We provide training to the sub-contractors on their safety and environmental awareness and assist them to correct unacceptable or dangerous practices at worksites. For details of our training, please refer to the paragraph headed "Occupational health, safety and environment compliance — safety training" of this section.

RESEARCH AND DEVELOPMENT

One of our key competitive strengths is our ability to customise and adapt existing technologies to the differing challenges posed by wastewater from diverse industries. Headed by Mr. Kang Zhao Yu, our Group's vice president and chief engineer who has 12 years of experience in environmental engineering technology and engineering design, our in-house R&D team consists of a total of five members as at the Latest Practicable Date, who are either professional engineers or experienced in environmental engineering. Please refer to the section headed "Directors, Senior Management and Staff" of this prospectus for the biographical details of Mr. Kang.

We often carry out laboratory tests and pilot runs on adapted treatment technologies in order to ensure the efficiency and performance of our proposed treatment solutions capable of meeting customers' required standards. Furthermore, given the increasing diversity of pollutants in the wastewater, our R&D team continues to spend efforts to enhance the effectiveness of existing treatment technologies and to keep abreast of any new technology launched overseas.

In addition, apart from wastewater treatment, there is other environmental protection area, such as soil remediation, in which the technology platform we have developed so far is also applicable in providing treatment solutions. We believe substantial business opportunities exists in this area, and we intend to spare appropriate R&D efforts and resources, including hiring experienced professionals, sending our staff to relevant external training courses, and procuring suitable testing equipment, to develop our competitiveness in such area.

Our research and development expenses for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 were RMB440,000, RMB109,000 and RMB449,000, respectively.

INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, we had six registered patents that are material to our business, one approved patent application which was pending receipt of the registration certificate and had filed two patent applications which were pending the approval from the State Intellectual Property Office of the PRC. All of our patents are duly registered in the PRC. As discussed in the section headed “Laws and Regulations — Other Laws and Regulations Relevant to Our Group in PRC — Intellectual Property Rights”, patents registered in the PRC are divided into three categories, namely invention patent, utility patent and design patent. Out of the six registered patents, three of them belong to invention patent and three of them are all utility patents.

During the Track Record Period, we have employed technologies related to three utility patents and one invention patent in our EPC and equipment projects. For the remaining registered patents that have not yet been utilised and the patents that we are applying, they are mainly related to proprietary technical know-how in the area of wastewater treatment, sludge treatment and food waste treatment. We believe the registrations of patents are crucial to our business development as the protection of our proprietary technologies is one of the most important elements of our business, especially when the patent application system in the PRC is based on a “first to file” principle. In addition to patents, we have registered two trademarks in the PRC and one trademark in Hong Kong which are used as our company logo and the domain name of *www.greatwater.com.cn* which is used as the website of our Group. Details of our material intellectual property rights are set out in the section headed “Statutory and General Information — Further Information about the Business of Our Group — 2. Intellectual Property Rights of Our Group” in Appendix V to this prospectus.

In order to safeguard our proprietary technical know-how, we have entered into relevant arrangements with our employees (including but not limited to management personnel and research and development personnel by way of either execution of a standalone confidentiality agreement or incorporation of various confidentiality provisions into the standard employment contract, pursuant to which such employees agree not to divulge any confidential information obtained during the course of their employment with us and not to compete with us during the course of employment and two years after termination of their employment and technologies that they may develop during their period of employment with us. In addition, there is a strict segregation of duties among personnel involved in different stages of our projects, which serves to limit the number of personnel with full access to information and knowledge about the entire research and development process of a particular proprietary technology as well as the entire execution process.

Our Directors confirmed that during the Track Record Period and as of the Latest Practicable Date, we had not been involved in any proceedings in respect of, and we had not received notice of any claims related to infringement of any intellectual property rights, in which we may be involved whether as a claimant or as a respondent.

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AWARDS AND ACCREDITATION

In recognition of our dedication to quality and our established track record, our Group has received the following awards or certificates from different departments of the government and professional accreditation organisations:

Year of grant	Description	Awarding organisation/institution
2004	Certificate for High and New Technology Enterprise (高新技術企業認定證書)	Science and Information Technology Bureau of Guangzhou City (廣州市科學技術局)
2010 ^(Note)	Certificate for compliance with GB/T 19001–2008/ISO 9001:2008 standard applicable to the management quality system for design of water pollution prevention and control engineering, operating services of pipeline direct drinking water and wastewater treatment facilities	Guangzhou Zhongjian Certification Co., Ltd. (中鑒認證有限責任公司)
2011	A grant was awarded to us under the Provincial Industrial Technology Research Significant Project (First Batch) Funds (2011) in relation to our food waste treatment project (2011年省部產學研結合重大項目(第一批)資金)	Bureau of Finance of Guangzhou Municipal (廣州市財政局) and Bureau of Science and Information Technology of Guangzhou Municipal Government (廣州市科技和信息化局)
2012	Certificate for High and New Technology Enterprise (高新技術企業證書)	Guangdong Provincial Science and Technology Department (廣東省科學技術廳), Guangdong Provincial Department of Finance (廣東省財政廳), Guangdong Provincial Office of State Administration of Taxation (廣東省國家稅務局), and Guangdong Provincial Local Taxation Bureau (廣東省地方稅務局)
2013–2014	Certificate of Enterprise of Good Faith and Credit (Grade A) (誠信企業(A級)證書) certifying our good record of compliance of law and regulations in relation to social security and labour law for 2012 and 2013	Human Resources and Social Security Bureau of Luogang District of Guangzhou (廣州市蘿崗區人力資源和社會保障局)
2014	Guangdong Province Contract Abiding & Creditable Enterprise (廣東省守合同重信用企業) for 11 consecutive years	GAIC

Note: Guangzhou Great Water was first accredited with GB/T 19001–2008/ISO 9001:2008 compliance certification in 2010 and the accreditation is renewed once every three years. The current certificate will expire on 21 October 2016.

QUALITY ASSURANCE

To maintain consistent quality services for our customers, we have established a quality management system which is certified to be in compliance with the requirements of ISO 9001:2008 in September 2010. Our quality assurance team comprises 8 staff members from our procurement, sales and marketing, engineering and technical, as well as human resources and administration departments. Ms. Chen Shao Juan, our head of human resources and administration, is responsible for supervising our quality assurance team. Please refer to the paragraph headed “Directors, Senior Management and Staff — Senior Management” of this prospectus for the biographical details of Ms. Chen Shao Juan.

Our quality assurance measures are summarised below:

- *Quality control plan:* In order to control the quality of the key components, materials, equipment and machinery supplied to us, we would only source from our approved sub-contractors and suppliers. We carefully select our approved sub-contractors and suppliers based on certain assessment criteria, such as their scales of operation, track records, technical competence and qualification, industry knowledge, product quality and stability, timely delivery and after-sales services. In particular, for our drinking water treatment projects, we would only procure the key components, materials, equipment and machinery which meet the PRC national standards for use in drinking water treatment facilities to ensure their qualities and performance. At the outset of the project implementation, our project manager holds project initiation meetings and training with our site staff and sub-contractors to discuss the execution requirements of the project plan, assign quality control and assurance responsibilities to ensure they understand our required quality standards and requirements.

- *Constant monitoring and inspection:* We closely monitor the quality of purchased equipment and materials required for water or wastewater treatment facilities to ensure conformity with our customers’ specifications and compliance with industry standards. We conduct on-site inspections of key components, equipment and machinery procured at the production lines of our suppliers to ensure they meet our customers’ requirements and specifications. In addition, upon delivery of the components, materials, equipment and machinery to our warehouse at the work site, our project management team would inspect such items together with the suppliers and/or the sub-contractors to ensure they meet our specifications and check whether there are any observable defects and functional problems before the installation work commences. We request for the relevant product approval certificates from the suppliers and/or sub-contractors and also conduct sample quality checks on such components, materials, equipment and machinery through qualified third-party testing and certification service providers to ensure they meet the PRC national standards. Furthermore, we closely supervise our sub-contractors and monitor their performance to ensure that our sub-contractors comply with the contractual specifications under the contract. Our project managers also conduct monthly meetings with our customers and sub-contractors to review work progress and ensure that the project is executed on schedule. For the drinking water treatment facilities we constructed, we further perform proper cleaning and sanitising works upon completion of the installation works but before the operation of the treatment facilities so as to ensure the safety and quality of the drinking water discharged from such treatment facilities. Meanwhile, for the drinking water treatment facilities to which we provide O&M services, we inspect the

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incoming raw water and the drinking water discharged from the pipeline system on a daily basis. Furthermore, annual inspections are conducted by the relevant government authorities for the drinking water treatment facilities to check whether the water discharged meets the standards as prescribed by the relevant PRC laws.

- *Customer service:* To improve our quality of service, we offer advisory services to our customers to handle and resolve complaints and non-conformities and consider measures to prevent re-occurrence of similar incidents in the future. We also conduct customers' survey after project completion to gather customers' feedback for each project on our service performance of the project.
- *Management on occupational health, safety and environmental protection:* As part of our quality assurance, we commit to providing a safe and environmental friendly working environment. Please refer to the paragraph headed "Occupational health, safety and environmental compliance" of this section for details.

Our Directors confirm that (i) there were no major complaints from customers regarding quality of our works and the water discharged from treatment facilities for which we provided O&M services; (ii) we did not encounter any material quality failure of the components, materials, equipment and machinery used in our projects; and (iii) the treatment facilities for which we provided O&M services have passed all inspections by the relevant government authorities during the Track Record Period and up to the Latest Practicable Date. We attribute our proven track record to our quality of services and our effective quality assurance measures under our quality management system.

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENTAL COMPLIANCE

Since March 2013, we have adopted and formalised our occupational health, safety and environmental management system to ensure compliance with relevant occupational health and safety laws, rules and regulations. We have implemented the following safety measures:

Safety committee and monthly safety committee meeting

Since March 2013, a safety committee is formed at corporate level and currently chaired by Mr. Xie (our executive Director and Chairman) and co-managed by Mr. Xiang Zhi Yi (our head of procurement department) and Ms. Chen Shao Juan (our head of human resources and administration department) as at the Latest Practicable Date. For details of the qualification and experience of Mr. Xie and Ms. Chen Shao Juan, please refer to the section headed "Directors, Senior Management and Staff" of this prospectus. A safety committee meeting is held on a quarterly basis for the purpose of setting strategic guidelines for our safety department to (i) manage occupational health and safety measures relating to our operation; and (ii) monitor the implementation of safety management for our Group. We also designate one safety supervisor to monitor on-site safety management and report on any non-compliance to the project manager who will report to our safety committee.

Safety inspection, risk assessment and accident reporting

Since March 2013, we have implemented and formalised a system of safety inspection, risk assessment and accident reporting as set out below:

- *Initial preparation of safety plan:* Prior to commencement of each project, our safety committee prepares a safety plan for the project for approval by our customers.
- *Daily safety inspection by our safety staff:* For the daily operation of our projects, our safety supervisors carry out daily safety inspections to monitor our site safety and ensure that adequate protective clothing and gear are provided to site staff.
- *Weekly safety review:* We hold weekly meeting to evaluate the degree of the site work's compliance with safety regulations, review the adequacy of safety measures on site and take immediate steps to remedy any defects or unsafe conditions and practices observed.

We adopt the following procedures for recording, handling and reporting on accidents:

In the event of any accidents on the construction site, our safety supervisor will notify our project manager on particulars of the accident, the identity of the injured workers and details of the injuries within 24 hours after occurrence of the accidents. Our project manager will report the incidents to our safety committee, our customer and insurance company in accordance with the procedures as set out in the contract. We are also required to promptly report the accidents to the relevant authorities in accordance with the relevant PRC laws and regulations. Our safety committee will conduct investigation on the accident/incident and consider the follow-up actions required to resolve any claims arising from the accident.

Safety training

We have an implemented and formalised, suitably structured training programme for all personnel employed on site as set out below:

- *Training prior to commencement of each project:* Prior to commencement of each project, our safety staff provides induction safety training to all the workers on site on all relevant site safety regulations.
- *Annual training programme:* Our safety committee offers annual training programme that requires our office staff and site personnel to attend safety training on safety rules and regulations.
- *Weekly briefing:* Safety briefing may be held on a weekly basis on compliance of safety rules and regulations and prevention of accidents.

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These trainings focus on different trades and activities and enhance occupational health and safety awareness. Topics of our safety training typically include safe operation and maintenance of plants, machinery and equipment, use of personal protective equipment, safety procedures for working at height, maintenance of safe access, fire precautionary measures, and safety procedures for handling and storage of chemicals and dangerous goods.

Accident and fatality rate

We believe our health and safety control measures are adequate and comply with applicable national and local health and safety laws and regulations in the PRC. During the Track Record Period and up to the Latest Practicable Date:

- we had a zero fatality rate and none of our employees had been involved in any major accident in the course of their employment;
- we had complied with the applicable national and local health and safety laws and regulations in all material respects;
- the relevant PRC authorities had not imposed any sanctions or penalties on us for any non-compliance with any health and safety laws or regulations in the PRC; and
- we were not subject to any claims of material importance for personal or property damage, and compensation paid to employees.

Environmental protection management

Our safety committee is responsible for monitoring environmental compliance issues. In order to comply with relevant environmental laws and regulations, we have adopted certain measures including but not limited to:

- choosing techniques, equipment and materials that cause less environmental pollution;
- using landfill and comprehensive utilisation methods for the treatment of solid waste produced during the wastewater treatment processes;
- controlling the effect of air pollutants, developing processes that discharge air pollutants underground or sealing such pollutants, and planting vegetation that can absorb relevant air pollutants;
- choosing equipment that produces less noise; and
- setting up relevant procedures that effectively identify and control the important environmental factors and major hazards to fulfil our environmental and safety targets and policies.

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INSURANCE

For our operation in the PRC, in accordance with applicable PRC regulations in relation to social insurance and housing funds, we maintain insurance that covers pension, medical insurance, unemployment insurance, occupational injuries insurance and childbirth insurance, as well as a housing fund for our employees. We also maintain insurance policies covering our head office building and the vehicles that we own in the PRC. For our operation in Vietnam, in accordance with applicable Vietnamese law and regulations, we maintain the social and health insurance for our employees in Vietnam.

However, we do not have insurance cover for certain types of risks, such as liabilities arising from events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorists attacks, as they are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks.

In the past, we did not maintain any third party liability insurance to cover claims in respect of personal injury or environmental damage arising from accidents relating to our operations, as it is not required under the relevant laws and regulations in the PRC and Vietnam. We relied on measures, such as (i) constant monitoring and inspection of subcontractors' work and (ii) regular trainings provided to sub-contractors on safety and environmental protection to raise sub-contractors' awareness towards these areas. However, to better control the risk towards the third party liability arising from accidents relating to our operations, our Directors have formulated the policy to take out third party liability insurance at the commencement of each projects in the future. We have obtained third party liability insurance policy for the existing ongoing EPC and equipment projects as at the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any interruptions, losses or damage to our operation which would materially affect us. Furthermore, no material claims from our employees or third parties had been filed against us during the Track Record Period and up to the Latest Practicable Date. For details regarding our insurance related risks, please refer to the section headed "Risk Factors — Risks Relating to Our Business — Our Insurance Coverage May not Fully Cover the Risks Related to Our Business and Operations" in this prospectus.

COMPETITION

The wastewater engineering services industry is highly fragmented, consisting of over 1,000 market participants, in the PRC. The top five market participants accounted for approximately 16.3% market share in 2014. The market fragmentation is mainly owing to (i) the disparate engineering specialty and technical know-how required for treating a particular type of industrial wastewater, (ii) the geographical dispersion of treatment plants, as it is not economical to collect wastewater from distant sources for centralised treatment, and (iii) building wastewater treatment facility often require local knowledge on government approval procedures and engaging local sub-contractors. Therefore, market participants who intend to expand its existing servicing locality sphere would have to consider to collaborate with industry partners in the target territory.

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We are a project-based engineering company. We obtain project contracts through tender by private invitation. Potential customer has to be aware of our market presence to extend its tender invitation to us. Therefore, possessing a well-established market reputation is important. More importantly, in our experience, contract is awarded to the winning bidder based on a combination of factors including pricing, past project experience, and perceived market standing.

Given our proven track record in this business, the business network developed by our senior management with various stakeholders in this industry, as well as the competitive strengths we possess, we are confident that we are able to differentiate ourselves from other competitors when expanding our business in Guangdong Province as well as to other provinces in China.

For further details of our competitive strengths, please refer to the paragraph headed “Competitive Strengths” of this section above.

PROPERTY INTERESTS

Properties in the PRC

We own a parcel of land with a site area of approximately 4,178 sq.m. located at No. 18 Keyan Road, Science City, High-tech Industrial Development Zone, Guangzhou City, Guangdong Province, the PRC and an industrial building with an aggregate gross floor area of approximately 7,356 sq.m. thereon.

As confirmed by the PRC Legal Advisers, we have obtained the land use rights certificate for the aforesaid parcel of land and the building ownership certificate for the building.

As at the Latest Practicable Date, we occupied approximately gross floor area of 2,661 sq.m. for our own use and leased a total gross floor area of 4,695 sq.m. to four independent third parties for an aggregate monthly rental of RMB187,035. For details of the tenancies, please refer to “Appendix III — Property Valuation” of this prospectus.

Roma Appraisals Limited, an independent property valuer, valued the capital value of our property interests at approximately RMB32.0 million as of 31 August 2015.

Property under construction

As at the Latest Practicable Date, we undertook the construction of an extra storey for own office use with a planned gross floor area of approximately 1,116.2 sq.m. on the existing top of the aforementioned building. In April 2015, we have obtained the planning permit with respect to constructing the extra storey from Bureau of Development Zone Planning and Land Resources Management of Guangzhou (廣州開發區規劃和國土資源管理局) and also submitted application for the construction permit to the relevant government authority. In May 2015, the local district government authority has issued a confirmation acknowledging, among other things, that there would be no obstacle for us to obtain the construction permit. In this regard, our PRC Legal Advisers confirm that there should not be any legal obstacles for us to obtain the construction permit and that our construction of extra storey involves no illegal structure which will bring about any kind of administrative penalty from the relevant government authority. Such construction is scheduled to be completed by the end of 2015. As at 31 August 2015, the construction cost incurred amounted to approximately RMB1,139,000.

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Leased property in Vietnam

Our Vietnamese Subsidiary entered into a lease agreement (the “**Vietnamese Lease**”) dated 27 January 2015 with an Independent Third Party on normal commercial terms for the operation of our business in Vietnam. The information of such leased premises is set out below:

Property	Gross floor area (sq.m.)	Commencement date	Expiry date	Monthly rent
House No. 22, Lot C, Resettlement Zone, 218 Doi Can Street, Lieu Giai Ward, Ba Dinh District, Hanoi City, Vietnam	150	27 January 2015	26 January 2016	VND20 million (equivalent to HK\$7,115) (exclusive of taxes)

As confirmed by our Vietnamese Legal Advisers, the Vietnamese Lease is valid, subsisting and enforceable in accordance with the Vietnamese laws.

Save as disclosed above, our Group does not have any property interests.

EMPLOYEES, MANAGEMENT AND STAFF TRAINING

As at 31 December 2013, 31 December 2014 and 30 June 2015, we had 48, 63 and 68 employees, respectively. As at the Latest Practicable Date, we had 67 employees, with 62 employees based in the PRC and 5 based in Vietnam.

The following table sets forth an approximate breakdown of our full-time employees by function as at 31 December 2013, 31 December 2014, 30 June 2015 and the Latest Practicable Date:

Function	As at 31 December		As at	As at
	2013	2014	30 June 2015	Latest Practicable Date
Group Management (<i>Note</i>)	4	5	5	5
Accounting and Finance	4	5	5	5
Sales and Marketing	6	4	5	4
Procurement	3	4	5	5
Engineering and Technical				
— O&M operation	5	10	13	13
— Project design & execution (<i>Note</i>)	12	15	16	16
Human Resources and Administration	14	15	14	14
Vietnamese Project	—	5	5	5
Total	48	63	68	67

Note: As at the Latest Practicable Date, there are five employees covering R&D functions under Engineering and Technical Department which headed by Mr. Kang Zhao Yu (being one of the group management).

BUSINESS

We recruit our staff mainly through placing advertisements, environmental industry recruitment websites and internal referrals. They are normally subject to a three-month probation period at the inception of their employment. We endeavour to establish good employer-employee relationships and have our human resources department to handle and address employee complaints and issues. During the Track Record Period, we did not have material difficulties in hiring staff.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not have any major dispute with our employees and generally we maintain a good working relationship with our employees; and we did not experience any material labour shortages in staffing our projects.

Our total employee benefit expenses (including directors) comprise salaries and wages, pension scheme contribution and other welfare were RMB4.1 million, RMB5.3 million and RMB3.7 million, respectively, for the years ended 31 December 2013 and 2014 and six months ended 30 June 2015.

The following table sets forth the employee benefit expenses for the years ended 31 December 2013 and 2014 and six months ended 30 June 2015:

	Year ended 31 December		Six months end
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses in respect of:			
direct labour as part of cost of sales	1,276	1,327	950
selling expenses	438	521	419
administrative expenses	<u>2,409</u>	<u>3,486</u>	<u>2,292</u>
	<u><u>4,123</u></u>	<u><u>5,334</u></u>	<u><u>3,661</u></u>

We believe that our working environment and the support and benefits provided to our employees have contributed to maintaining good working relationships with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any strikes or labour disputes with our employees which have had a material effect on our business.

Social Welfare Schemes and Housing Provident Fund

Pursuant to Social Insurance Law of the PRC (《中華人民共和國社會保險法》), we are obliged to provide our employees in the PRC with the social welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance. Furthermore, according to the Regulations on the Administration of Housing Funds (《住房公積金管理條例》), we are also required under the applicable PRC laws and regulations to provide our employees in the PRC with the social welfare schemes covering housing fund and housing benefits.

As confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we have fully paid social insurance and housing provident fund for our employees.

BUSINESS

Staff training

New employees are required to participate in an orientation programme whilst existing staff are given training relevant to their area of work to upgrade their skills and increase their productivity whenever appropriate. Our staff training is either conducted internally by our management and various heads of department or conducted by external trainers hired by our Company. Over the years, we have also conducted training courses in relation to advanced water treatment technology, sales and marketing skills, enterprise management, human resource training, project budgeting, new standards for environmental engineering and automatic electrical control and municipal piping systems design.

We also require our staff to familiarise themselves with our most updated guidelines for the purpose of ensuring compliance with occupational health, safety and environmental laws and regulations. For details of our training provided to our staff, please refer to the paragraph headed “Occupational Health, Safety and Environmental Compliance — Safety Training” of this section above.

LEGAL PROCEEDINGS

During the Track Record Period and as at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our operating results or financial condition.

LEGAL AND REGULATORY COMPLIANCE

Licenses and qualifications

As at the Latest Practicable Date, our Group had the following qualifications, permits and certificates that are material to our business operations in the PRC:

	Relevant authority/organisation	Certificate	Holder/Grantee	Duration	Authorised contract value
1.	Guangzhou Urban-Rural Construction Committee (廣州市城鄉建設委員會)	Qualification of Environmental Engineering Professional Contractor (Level 3) (環保工程專業承包三級資質)	Guangzhou Great Water	18/1/2013– 18/1/2018	Not exceeding the amount equal to 5 times of the registered capital of Guangzhou Great Water
2.	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房與城鄉建設廳)	Environmental Engineering Specialty Design Qualification (Class B) (環保工程專項設計乙級資質)	Guangzhou Great Water	13/5/2015– 13/5/2020	N/A
3.	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房與城鄉建設廳)	Work Safety Licence (安全生產許可證)	Guangzhou Great Water	26/7/2013– 26/7/2016	N/A

BUSINESS

Our PRC Legal Advisers confirmed that we have obtained all the material licences, certificates and permits from appropriate regulatory authorities for our business operations in the PRC. Our PRC Legal Advisers advised that, as of the Latest Practicable Date, we had obtained all the material qualifications, permits and certificates for carrying out our wastewater treatment projects and other environmental projects, including flue gas treatment projects and soil remediation projects, in the PRC. Our PRC Legal Advisers further confirmed that, all the environmental protection projects we undertook during the Track Record Period were within the project scale and project category as permitted under the relevant licences. For further details, please refer to the section headed “Laws and Regulations — PRC Laws and Regulations — Laws and Regulations on Licences and Certificates” in this prospectus.

As advised by our Vietnamese Legal Advisers, the Foreign Contractor Permit must be obtained before completion of our project in Vietnam. However, under Vietnamese law, there is no time limit within which a foreign contractor must obtain a Foreign Contractor Permit after having won the bidding, having been selected for contracting or having signed contract with customer as a main contractor. We have obtained the Foreign Contractor Permit in respect of the Vietnamese Project in October 2015. For further details, please refer to the section headed “Laws and Regulations — Vietnamese Laws and Regulations — Laws and Regulations on Licences, Permits and Certificates” in this prospectus. Save as disclosed above, our Vietnamese Legal Advisers confirmed that we had obtained all the material licences, certificates and permits from the relevant regulatory authorities for our business operations in the Vietnam.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

We believe that corporate governance and risk management are crucial to the development and success of our business. Therefore, we have adopted corporate governance measures and risk management measures in various aspects of our business operations such as financial reporting, legal compliance, information system and premises safety and human resources management.

Risk management

We recognise the need for risk management in our strategic and operational planning, day-to-day management and decision making process and are committed to managing and minimising risks by identifying, analysing, evaluating and mitigating risk exposures that may impact the continued efficiency and effectiveness of our operations or prevent it from achieving its business objectives.

The risks which are identified by our Company are broadly categorised into business risks, financial risks, compliance risks and operation and other risks. All such risks may arise from time to time in connection with the operations of our Group.

The risk management process of our Group is coordinated and facilitated by our compliance officer, Mr. He Xuan Xi, and is overseen by our chief executive officer. The objectives of risk management are to, among others, enhance our Company’s governance and corporate management processes as well as to safeguard our Group against unacceptable levels of risks and losses.

BUSINESS

The risk management process of our Group will involve, *inter alia*, (i) an annual risk identification exercise which involves assessment of the consequence and likelihood of risks (including documenting those of potentially high impact) and the development and/or review of risk management plans for mitigating such risks; and (ii) ensuring that our staff and other stakeholders have access to appropriate information and training in the area of risk management.

Corporate governance

In terms of corporate governance, and as such our Group has, among others, (i) designated our compliance officer, Mr. He Xuan Xi, to assist our Board to oversee and monitor due compliance with laws, rules and regulations applicable to our Group; (ii) appointed three independent non-executive Directors to ensure the effective exercise of independent judgement on its decision-making process and provide independent advice to the Board and the Shareholders; (iii) an audit committee to assist our Board by providing independent view of the effectiveness of our financial reporting process and internal control and risk management systems, and overseeing the audit process; (iv) appointed Shenwan Hongyuan as our compliance adviser in compliance with the applicable GEM Listing Rules; and (v) provided (and will continue to provide) our Directors and senior management with training, development programmes on applicable legal and regulatory requirements from time to time.

Based on the above, our Directors are of the view that our Company has adequate corporate governance measures and risk management procedures in place for the business operations of our Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

OVERVIEW

Our Board currently consists of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business. The following table sets out certain information regarding our Directors and our senior management:

Directors

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Directors and senior management
Mr. XIE Yang (謝楊先生)	52	Executive Director, Chairman, Chief Executive Officer	August 2001	Appointed as a Director on 25 March 2015 and re-designated as an executive Director on 27 May 2015	Responsible for overall business strategy and major business decisions of our Group and performing his duties as the chairman of the nomination committee and a member of the remuneration committee	N/A
Mr. HE Xuan Xi (何炫曦先生)	32	Executive Director	January 2007	Appointed as an executive Director on 27 May 2015	Responsible for general management and day-to-day operation of our Group and acting as the compliance officer of our Group	N/A
Ms. GONG Lan Lan (龔嵐嵐女士)	39	Non-executive Director	June 2012	Appointed as a Director on 25 March 2015 and re-designated as a non-executive Director on 27 May 2015	Performing her duties as a non-executive Director and providing advice on strategic direction	N/A
Mr. SONG Xiao Xing (宋曉星先生)	34	Non-executive Director	June 2012	Appointed as a Director on 25 March 2015 and re-designated as a non-executive Director on 27 May 2015	Performing his duties as a non-executive Director and providing advice on technical issue	N/A
Ms. BAI Shuang (白爽女士)	43	Independent non-executive Director	November 2015	Appointed as an independent non-executive Director on 24 November 2015	Performing her duties as an independent non-executive Director and a member of the audit committee, remuneration committee and nomination committee	N/A
Mr. HA Cheng Yong (哈成勇先生)	56	Independent non-executive Director	November 2015	Appointed as an independent non-executive Director on 24 November 2015	Performing his duties as an independent non-executive Director and the chairman of the remuneration committee and a member of the audit committee	N/A
Mr. TSE Chi Wai (謝志偉先生)	48	Independent non-executive Director	November 2015	Appointed as an independent non-executive Director on 24 November 2015	Performing his duties as an independent non-executive Director and the chairman of the audit committee and a member of nomination committee	N/A

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Senior Management

Name	Age	Position	Date of joining our Group	Date of appointment of current position	Responsibilities	Relationship with other Directors and senior management
Mr. KANG Zhao Yu (康兆雨先生)	38	Vice president, head of engineering and technical department	February 2008	February 2008	Responsible for overseeing the engineering, and technical operation as well as research and development of our Group	N/A
Mr. SHI Zhan Kun (時湛坤先生)	45	Vice president, head of sales and marketing department	September 2012	September 2012	Responsible for overseeing the sales and marketing activities of our Group	N/A
Ms. CHEN Shao Juan (陳少娟女士)	36	Head of administration and human resources department	February 2007	February 2007	Responsible for overseeing human resources and administration matters of our Group	N/A
Mr. TSUI Kan Chun (徐勤進先生)	42	Chief Financial Officer, Company Secretary	March 2015	27 May 2015	Responsible for overseeing the financial operations and secretarial matters of our Group	N/A

DIRECTORS

Executive Directors

Mr. XIE Yang (謝楊先生), aged 52, is an executive Director, our Chairman and our Chief Executive Officer. Mr. Xie is one of our Controlling Shareholders. Mr. Xie is also a director of Hongran EP, Lintao EP, Guangzhou Great Water and Great Water Hong Kong. He has over 13 years of experience in wastewater and water treatment engineering service industry in the PRC. Mr. Xie is primarily responsible for the overall management, strategic planning and business development of our Group. He is also the legal representative and general manager of Guangzhou Great Water. Mr. Xie is one of the founding shareholders of Guangzhou Great Water since August 2001. Prior to the establishment of Guangzhou Great Water, Mr. Xie was a shareholder and a director of 廣州陽光燃氣發展有限公司 (Guangzhou Sunshine Gas Development Co. Ltd.), a company principally engaged in the design, implementation and management of natural gas facilities and pipes from 1996 to 2001, where he was responsible for its overall management, strategic planning and business development.

Mr. Xie graduated from the Hunan Normal University (湖南師範大學), the PRC in July 1981. He further completed his education in political sciences at 中國共產主義青年團中央團校 (Central School of China Communist Youth League (currently known as China Youth University of Political Studies (中國青年政治學院)) in January 1988. In November 2003, Mr. Xie was appointed as a visiting professor at Hunan Technology College (湖南科技學院). He is also a senior engineer in the field of environmental engineering recognised by Chinese Academy of Sciences (中國科學院) in November 2004.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Xie was a director of the following companies established in the PRC prior to their respective dissolutions:

Name of company	Nature of business prior to dissolution	Means of dissolution	Reason for dissolution
廣州陽光燃氣發展有限公司 (Guangzhou Sunshine Gas Development Co., Ltd.)	Design, implementation and management of natural gas facilities and pipes	Dissolution under PRC law	Cessation of business
深圳市安利基實業有限公司 (Shenzhen Anliji Industrial Co., Ltd.)	Trading	Dissolution under PRC law	Cessation of business

Mr. Xie confirmed that there is no wrongful act on his part leading to the dissolutions of these companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolutions, and that his involvement in the above companies was part and parcel of his services as a director of these companies and that no misconduct or misfeasance had been involved in the dissolutions of these companies.

In December 1989, Mr. Xie was charged with the offence of disrupting public order (the “Offence”) and was convicted and sentenced to two years’ imprisonment. The background leading to Mr. Xie’s conviction of the Offence is as follows:

- In November 1988, it was announced that the then vice-mayor (the “Official”) of Yueyang City, Hunan Province, the PRC, was suspended from his position as a vice-mayor of Yueyang City. Mr. Xie was among the citizens of Yueyang City who were disappointed with the suspension of the Official and claimed the decision to suspend the Official to be an unjust one, called for a fair and impartial judgement for the Official.
- According to the judgment rendered by the South District People’s Court of Yueyang City dated 12 December 1989 (the “Judgment”), in March 1989, Mr. Xie and two other persons organised a rally to report on the Official’s case, displayed posters and participated in mass demonstrations. In May 1989, Mr. Xie attended another mass meeting where he delivered a speech and incited others to join mass demonstrations. As referred to in the Judgment, a fund raising was initiated by Mr. Xie and other protestors voluntarily without any directions or requests from the Official and such activity had raised an amount of approximately RMB1,000 for financing the protestors to go to Beijing to press their demands for a fair and impartial judgment for the Official. Such fund was later confiscated. In July 1989, the Official was deposed as a vice mayor of Yueyang City as a result of his violation of the fundamental organisation principle of the Chinese Communist Party.
- Mr. Xie later surrendered to the police voluntarily and was charged with the Offence. Mr. Xie was convicted and sentenced to two years’ imprisonment in December 1989. Mr. Xie completed the two-year custodial sentence in June 1991.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Xie confirmed that he did not have any personal or business relationship with, nor did Mr. Xie have any arrangement, financial, business or otherwise with, the Official at all material times.

Notwithstanding Mr. Xie's past conviction of the Offence, our Directors are of the view, and the Sole Sponsor concurs, that Mr. Xie is suitable to act as a Director under Rules 5.01 and 5.02 of the GEM Listing Rules on the following grounds:

- The conviction of the Offence was a civil disobedience conviction and it was not related to corruption, fraud, misappropriation and market misconduct.
- As advised by our PRC Legal Advisers, Mr. Xie is not precluded from acting as a director of a company under PRC law.
- The maximum disqualification period for an individual to act as a director of a Hong Kong company is 15 years under the SFO and the Companies (Winding Up and Miscellaneous Provisions) Ordinance whereas Mr. Xie completed his custodial sentence in 1991.
- Mr. Xie was purportedly protesting against government corruption hence the conviction should not negatively reflect his character and integrity.
- Mr. Xie possesses the requisite skills, care, diligence and experience in wastewater and water treatment engineering service industry in the PRC as demonstrated in his biography above.

Mr. HE Xuan Xi (何炫曦先生), aged 32, is an executive Director and the compliance officer of our Company. Mr. He is primarily responsible for general management and overseeing major affairs of our Group, including project management and strategic development of our Group. Mr. He has over 9 years of experience in accounting and financial management. Mr. He joined our Group as an accountant in January 2007 and was later promoted to finance supervisor in November 2007, finance deputy manager in March 2008, finance manager in January 2009 and assistant to general manager in March 2014. Mr. He graduated from 廣東財經職業學院大學專科 (Guangdong Finance and Economics College) in July 2005 with a diploma in accountancy. He further obtained a bachelor degree in accountancy from South China University of Technology School of Continuing Education (華南理工大學繼續教育學院) in Guangzhou, the PRC, in January 2011.

Non-Executive Directors

Ms. GONG Lan Lan (龔嵐嵐女士), aged 39, was appointed a Director on 25 March 2015 and re-designated as a non-executive Director on 27 May 2015. She is one of our Controlling Shareholders. She has served as a director of Guangzhou Great Water since June 2012. Ms. Gong has assumed a non-executive role on the board of Guangzhou Great Water and does not participate in the day-to-day management and operation of our Group. Ms. Gong also gives advice on strategic direction of our Group as a member of our Board. Ms. Gong is also a director of Hongrun EP and Lintao EP. Since September 2007, Ms. Gong has worked as a deputy general manager responsible for general management and day-to-day operation in 上海騰一信息技術有限公司 (Shanghai Tengyi Information Technology Co., Ltd.) (a company principally engaged in information technology development

DIRECTORS, SENIOR MANAGEMENT AND STAFF

business). Ms. Gong graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in corporate management in June 1998. She further obtained a master degree in accountancy at Shanghai University of Finance and Economics in December 2007.

Ms. Gong was a director of Power Winner Development Limited (a company primarily engaged in investment holding), which was incorporated in Hong Kong, prior to its dissolution on 20 March 2015. This company was dissolved by way of deregistration under section 750 of the Companies Ordinance on the ground that it ceased to carry on any business or operation. Ms. Gong confirmed that there is no wrongful act on her part leading to the dissolution of this company and she is not aware of any actual or potential claim that has been or will be made against her as a result of the dissolution, and that her involvement in this company was part and parcel of her services as a director of this company and that no misconduct or misfeasance had been involved in the dissolution of this company.

Mr. SONG Xiao Xing (宋曉星先生), aged 34, was appointed a Director on 25 March 2015 and re-designated as a non-executive Director on 27 May 2015. He is one of our Controlling Shareholders. He has served as a director of Guangzhou Great Water since June 2012. Mr. Song has assumed a non-executive role on the board of Guangzhou Great Water and does not participate in the day-to-day management and operation of our Group. Mr. Song also gives advice and guidance on engineering and technical issues as a member of our Board. Mr. Song is also a director of Hongrun EP and Lintao EP. Since September 2010, Mr. Song has worked as the general manager for construction structural alteration projects in 上海廈安工程科技有限公司 (Shanghai Xiaan Engineering Technology Co., Ltd.) (a company principally engaged in construction engineering business). From July 2009 to July 2010, Mr. Song worked as an engineer who was primarily responsible for research and development work relating to large-scale construction engineering projects at the technology centre of 上海建工一建集團有限公司 (Shanghai Construction No. 1 (Group) Co., Ltd.), a company principally engaged in property construction contracting business.

Mr. Song graduated from Hefei University of Technology (合肥工業大學) with a bachelor in construction engineering in July 2002. He further obtained a master degree in structural engineering at Hefei University of Technology in May 2005 and completed his PhD in disaster prevention engineering and maintenance engineering at Tongji University (同濟大學) in July 2009.

Independent Non-Executive Directors

Ms. BAI Shuang (白爽女士), aged 43, was appointed an independent non-executive Director on 24 November 2015. Ms. Bai has been a seasoned practising lawyer in the PRC for over 22 years. She is currently a senior partner of Beijing Dacheng (Guangzhou) Law Offices (北京大成(廣州)律師事務所) since November 2010. From October 2006 to October 2010, Ms. Bai was a partner of Guangdong Debi Law Offices (廣東德比律師事務所). From October 2001 to October 2006, she worked as a lawyer at Guangdong Kings Law Firm (廣東金領律師事務所). Ms. Bai graduated from Southwest University of Political Science and Law (西南政法大學) with a bachelor degree in laws in July 1992. During the three years immediately preceding the Latest Practicable Date, Ms. Bai has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. HA Cheng Yong (哈成勇先生), aged 56, was appointed an independent non-executive Director on 24 November 2015. Mr. Ha has 33 years of experience in research and application of chemistry and natural sciences. From January 2012, Mr. Ha has served as an assistant to the Dean of Industrial Technology Research Institute of Chinese Academy of Sciences (中國科學院), a national academy for natural sciences of the PRC and Mr. Ha was responsible for property investment and supervising the research on the application of polymer materials. During the period between December 2000 and June 2009, Mr. Ha was the deputy head of Guangzhou Chemistry Research Institutes of Chinese Academy of Sciences (中國科學院廣州化學研究所) who was responsible for overseeing chemistry research activities. From December 2001 to May 2009, Mr. Ha served as a managing director of Chinese Academy of Sciences Guangzhou Chemistry Co., Ltd. (中科院廣州化學有限公司), a company principally engaged in the research and development on chemical engineering and other engineering services where he was responsible for the overall management, the strategic development and formulation of research area and direction of the Company. Since November 1997, Mr. Ha worked as a researcher and was later promoted to tutor for master students at Guangzhou Chemistry Research Institute of Chinese Academy of Sciences.

Mr. Ha graduated from Wuxi Light Industry College (無錫輕工業學院) (now known as Jiangnan University (江南大學)) with a bachelor degree in industrial chemistry in December 1982. He then obtained a master's degree in forest chemical processing engineering at Institute of Chemical Industry of Forest Products (中國林業科學研究院) in September 1985 and later completed his PhD at the same institute in October 1991. During the period between November 2008 and December 2014, Mr. Ha was an independent director of Xilong Chemical Co., Ltd. (西隴化工股份有限公司) (a company principally engaged in the production, sale, research and development of chemical reagent, a company established in the PRC and listed on the Shenzhen Stock Exchange (stock code: 002584)).

Mr. TSE Chi Wai (謝志偉先生), aged 48, was appointed an independent non-executive Director on 24 November 2015. He is an executive director, the financial controller and company secretary of China Information Technology Development Limited, a company listed on GEM of the Stock Exchange (stock code: 8178), the principal business of which is development and sale of computer software and hardware and the provision of system integration and related support services in the PRC. Mr. Tse has over twenty years of experience in auditing, accounting and finance gained from working with various international accounting firms and listed companies. Mr. Tse is an independent non-executive director of China Environmental Technology Holdings Limited (a company principally engaged in among others, environmental protection technology, the shares of which are listed on the main board of the Stock Exchange (stock code: 646)) since May 2015 and an independent non-executive director of Sunac China Holdings Limited (a company principally engaged in property development, property investment and property management services, the shares of which are listed on the main board of the Stock Exchange (stock code: 1918)) since December 2012. Mr. Tse is also an executive director of Jih Sun Financial Holding Company Limited (a company principally engaged in securities brokerage, trading, underwriting, and margin purchases and short sales activities, the shares of which are listed on the Taiwan Stock Exchange Corporation (stock code: 5820: Taiwan)) since December 2010. Mr. Tse graduated from the University of Hong Kong in June 1989 with a bachelor degree in social sciences. Mr. Tse is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

During the period between March 2015 and November 2015, Mr. Tse was an independent non-executive director of Greens Holdings Ltd. (“**Greens Holdings**”), a company incorporated in the Cayman Islands and principally engaged in the manufacture and supply of heat transfer products and solutions, the shares of which are listed on the main board of the Stock Exchange (stock code: 1318). Greens Holdings announced that (i) on 2 September 2015, Greens Holdings filed a winding up petition with the Grand Court of the Cayman Islands; (ii) on 29 September 2015, a winding up petition was filed with the High Court of Hong Kong against Greens Holdings by a bondholder for an outstanding debt under the unlisted bonds issued by Greens Holdings in January 2015; (iii) on 8 October 2015, joint provisional liquidators were appointed pursuant to an order of the Grand Court of the Cayman Islands; and (iv) the winding up petition instituted in Hong Kong will be heard on 2 December 2015. Mr. Tse confirmed that (i) there is no wrongful act on his part leading to the said winding up petitions and he is not aware of any actual or potential claim which has been or will be made against him as a result of the said winding up petitions; and (ii) his involvement in Greens Holdings during his tenure was part and parcel of his services as a director thereof and no misconduct or misfeasance on his part had been involved in the said winding up petitions.

Save as disclosed above, each of our Directors confirms that (i) each of them has not held any directorships of a public company the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding the Latest Practicable Date; (ii) each of them does not have any relationship with any other Directors, senior management or substantial or Controlling Shareholders of our Company; (iii) each of them does not have any interests in the Shares within the meaning of Part XV of the SFO; (iv) there are no other matters concerning all our Directors’ appointment that need to be brought to the attention of our Shareholders and the Stock Exchange; and (v) there are no other matters which need to be disclosed pursuant to Rule 17.50(2)(h) to 17.50(2)(v) of the GEM Listing Rules.

SENIOR MANAGEMENT

Mr. KANG Zhao Yu (康兆雨先生), aged 38, is our Group’s vice president. Mr. Kang joined our Group as the head of our engineering and technology department in February 2008. He has over 12 years of experience in environmental protection technology and engineering. Mr. Kang is responsible for overseeing the engineering, and technical operations of our Group. Prior to joining our Group, from January 2003 to July 2007, he worked as a technology deputy manager at 思捷環保科技有限公司 (Clean & Green Environmental Technology Co., Ltd.), a company principally engaged in environmental protection engineering, where he was responsible for environmental protection project management.

Mr. Kang graduated from 北京輕工業學院 (Beijing Light Industry College) (currently known as Beijing Technology and Business University (北京工商大學)) in July 1999 with a bachelor degree in environmental engineering. Since December 2008, Mr. Kang has been a municipal water drainage intermediate engineer (市政級排水中級工程師) recognised by 中國市政工程東北設計研究院 (China Northeast Municipal Engineering Design & Research Institute). Mr. Kang has been a registered environmental protection engineer admitted by the Human Resources and Social Security Bureau of the Guangdong Province, the PRC (廣東省人力資源和社會保障廳) since February 2010. During the three years immediately preceding the Latest Practicable Date, Mr. Kang has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. SHI Zhan Kun (時湛坤先生), aged 45, is our Group's vice president. Mr. Shi joined our Group as the head of our sales and marketing department in September 2012. He has over 12 years of sales and marketing experience in environmental protection engineering enterprises. Mr. Shi is responsible for overseeing the sales and marketing activities of our Group. Prior to joining our Group, from July 2002 to July 2010, he worked as a general manager at 廣州市新善環保科技有限公司 (Guangzhou Xinshan Environmental Protection Technology Co., Ltd.), a company principally engaged in environmental protection engineering, where he was responsible for overall management and sales and marketing business operation of the company.

Mr. Shi graduated from the Guangdong University of Technology (廣東工業大學), the PRC in July 1991 with a bachelor of engineering management. Mr. Shi is an intermediate economist admitted by the Ministry of Personnel of the PRC (中華人民共和國人事部) since June 1995. During the three years immediately preceding the Latest Practicable Date, Mr. Shi has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Ms. CHEN Shao Juan (陳少娟女士), aged 36, is our head of human resources and administration department. Ms. Chen joined our Group as the human resources and administration manager in February 2007. She has over 15 years of human resources and administration experience. Ms. Chen is responsible for overseeing human resources and administration matters of our Group. Prior to joining our Group, from August 2001 to June 2006, she worked as an officer of general management office at 廣東中科綠源水務有限公司 (Guangdong Zhongke Green Spring Co., Ltd), a company principally engaged in water and wastewater treatment engineering projects, where she was responsible for human resources management.

Ms. Chen graduated from 廣東職業技術師範學院 (Guangdong Vocational Polytechnic Normal University) (currently known as the Guangdong Polytechnic Normal University (廣東技術師範學院)) in July 2000 with a diploma in electronic engineering. She further obtained a bachelor degree in human resources management from Nanjing University of Science and Technology (南京理工大學) in July 2005. Ms. Chen is certified to be a human resources professional admitted by Ministry of Labour and Social Security of the PRC (中華人民共和國勞動和社會保障部) in February 2006. She is also certified to be an assistant economist by the Human Resources and Social Security Bureau of Guangzhou Development District, the PRC (廣州開發區人力資源和社會保障局) in February 2012. During the three years immediately preceding the Latest Practicable Date, Ms. Chen has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. TSUI Kan Chun (徐勤進先生), aged 42, is our chief financial officer and the company secretary of our Company. Mr. Tsui joined our Group in March 2015. Mr. Tsui was appointed the chief financial officer of our Company on 27 May 2015. He has over 15 years of experience in auditing, finance and accounting. Mr. Tsui is responsible for overseeing the accounting and financial operations of our Group. Prior to joining our Group, from September 2012 to July 2014, he was the company secretary, authorised representative and chief financial officer of Blue Sky Power Holdings Limited (a company listed on the main board of the Stock Exchange (stock code: 6828) and its principal business is printing business and sales of paper and leather products). From May 2007 to July 2012, he worked as a company secretary, authorised representative and group financial controller of Shanghai Tonva

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Petrochemical Co., Ltd. (a company listed on the main board of the Stock Exchange (stock code: 1103) and its principal business is sales of asphalt and fuel oil, provision of logistics services and road and bridge construction).

Mr. Tsui graduated from the University of Wollongong in Australia with a bachelor degree in accountancy in May 1997. He further obtained a master degree in corporate governance from Hong Kong Polytechnic University in December 2006. Mr. Tsui is an associate member of the Hong Kong Institute of Certified Public Accountants, a member of the Certified Practising Accountants in Australia and an associate member of the Hong Kong Institute of Chartered Secretaries. Save as disclosed above, during the three years immediately preceding the Latest Practicable Date, Mr. Tsui has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

COMPANY SECRETARY

Mr. TSUI Kan Chun (徐勤進先生) is the company secretary of our Company. Mr. Tsui's biography is set out in the paragraph headed "Senior Management" of this section above.

COMMITTEES OF THE BOARD OF DIRECTORS

Our Board of Directors delegates certain responsibilities to various committees. In accordance with our Articles of Association and the GEM Listing Rules, we have formed three board committees, namely the audit committee the nomination committee and the remuneration committee.

Audit Committee

Our Company established an audit committee on 24 November 2015 in compliance with Rule 5.28 of the GEM Listing Rules with written terms of reference in compliance with paragraph C.3.3 of the Corporate Governance Code. Our audit committee consists of Mr. Tse Chi Wai, Ms. Bai Shuang and Mr. Ha Cheng Yong. Currently, Mr. Tse Chi Wai is the chairman of the audit committee.

The principal responsibilities of the audit committee include:

- reviewing our Company's annual financial statements;
- reviewing and monitoring the extent of the non-audit work undertaken by external auditors;
- advising on the appointment of external auditors; and
- reviewing the effectiveness of our Company's internal audit activities, internal controls and risk management systems.

Nomination Committee

Our Company established a nomination committee on 24 November 2015 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. Our nomination committee consists of Mr. Xie Yang, Ms. Bai Shuang and Mr. Tse Chi Wai. Currently, Mr. Xie Yang is the chairman of the nomination committee.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The principal responsibilities of the nomination committee include:

- assisting our Board in discharging its responsibilities relating to the composition of our Board;
- evaluating the balance of skills, knowledge and experience on our Board;
- evaluating the size, structure and composition of our Board; and
- evaluating the retirements and appointments of additional and replacement directors and making appropriate recommendations to our Board on such matters.

Remuneration Committee

Our Company established a remuneration committee on 24 November 2015 in compliance with Rule 5.34 of the GEM Listing Rules with written terms of reference in compliance with paragraph B.1.3 of the Corporate Governance Code. Our remuneration committee consists of Mr. Ha Cheng Yong, Ms. Bai Shuang and Mr. Xie Yang. Currently, Mr. Ha Cheng Yong is the chairman of the remuneration committee.

The principal responsibilities of the remuneration committee include:

- making recommendations to our Board on our Company's policy on executive Director's remuneration;
- determining the individual remuneration and benefits package of each of our executive Directors; and
- recommending and monitoring the remuneration of senior management below Board level.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. Xie is our Chairman and Chief Executive Officer. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie is responsible for our Group's overall strategic planning and management of our business. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of our Group and the balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced individuals. Our Board currently comprises two executive Directors (including Mr. Xie), two non-executive Directors and three independent non-executive Directors and therefore has sufficient independent elements in its composition.

Save as disclosed above, we are in compliance with the code provisions of the Corporate Governance Code.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

COMPLIANCE OFFICER

Mr. HE Xuan Xi (何炫曦先生) was appointed as the compliance officer of our Company. Mr. He's biography is set out in the paragraph headed "Directors" of this section above.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors receive remuneration in the form of Directors fees, salaries, allowances and other benefits as well as contributions to retirement benefit scheme. The total compensation accrued to our Directors for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 was RMB421,000, RMB480,000 and RMB241,000, respectively.

The aggregate compensation (including Directors fees, salaries, contributions to retirement benefit scheme, allowances and other benefits) paid to our five highest paid individuals during the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 was RMB596,000, RMB701,000 and RMB474,000, respectively.

Under the arrangement currently in force, we estimate the total compensation to be paid or accrued to our Directors for the six months ending 31 December 2015 to be RMB344,000.

We did not pay to our Directors or the five highest paid individuals any inducement fees to join us or as compensation for loss of office for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015. Furthermore, none of our Directors waived any compensation for the same period.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 by us or any of our subsidiaries to our Directors.

Our Directors and senior management receive compensation in the form of director fees, salaries, benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and the performance of our Group. Our Group also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the operations of our Group. We regularly review and determine the remuneration and compensation packages of our Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

DIRECTORS' INTEREST

Save as disclosed in this section, each of our Directors (i) did not hold other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as of the Latest Practicable Date; and (iii) did not hold any directorship in any other listed companies in the three years immediately preceding the Latest Practicable Date.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, save as disclosed herein, there was no additional matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders, and there was no additional information relating to our Directors that is required to be disclosed pursuant to 17.50(2)(h) to 17.50(2)(v) of the GEM Listing Rules as of the Latest Practicable Date.

COMPLIANCE ADVISER

We have agreed to appoint Shenwan Hongyuan to be our compliance adviser upon Listing on the Stock Exchange in compliance with Rule 6A.23 of the GEM Listing Rules. We have entered into a compliance adviser's agreement with the compliance adviser prior to the Listing Date, the material terms of which are as follows:

- the term of appointment of the compliance adviser will commence on the Listing Date of our Company and end on the date on which we distribute our annual report in respect of our financial results for the second full financial year commencing after the Listing Date (i.e. the date of despatch of the annual reports of our Company in respect of our results for the financial year ending 31 December 2017), or until the agreement is terminated, whichever is earlier;
- the compliance adviser will provide us with certain services, including guidance and advice as to compliance with the requirements under the GEM Listing Rules and applicable laws, rules, codes and guidelines and advice on the continuing requirements under the GEM Listing Rules and applicable laws and regulations;
- our Company will consult with and, if necessary, seek advice from Shenwan Hongyuan as our compliance adviser in the following circumstances:
 - (a) before the publication of any regulator announcement, circular or financial report;
 - (b) where a transaction which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
 - (c) where our Company intends to use the proceeds of the Placing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviates from any forecast, estimate or other information in this prospectus; and
 - (d) where the Stock Exchange makes any enquiry to our Company under Rule 17.11 of the GEM Listing Rules; and
- the compliance adviser will serve as a channel of communication with the Stock Exchange.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

Please refer to the section headed “Business — Employees, Management and Staff Training” of this prospectus for details relating to number of staff, staff benefits, training and recruitment policy of our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Placing, the Company is owned as to 30.45% by Oceanic Expert, 22.37% by Waterman Global and 14.68% by Great Time. Oceanic Expert is wholly owned by Perfect Wave which in turn is wholly owned by Mr. Xie. Waterman Global is wholly owned by Thinker Global which in turn is wholly owned by Ms. Gong. Great Time is wholly owned by Topman Ventures which in turn is wholly owned by Mr. Song. Mr. Xie, Mr. Song, Ms. Gong, Perfect Wave, Oceanic Expert, Thinker Global, Waterman Global, Topman Ventures and Great Time are the Controlling Shareholders of our Company.

Each of Oceanic Expert, Perfect Wave, Waterman Global, Thinker Global, Great Time and Topman Ventures is an investment holding company.

Mr. Xie, Mr. Song, Ms. Gong, Perfect Wave, Oceanic Expert, Thinker Global, Waterman Global, Topman Ventures and Great Time confirm that they and their close associates do not have any interest, individually or together, in any business which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 11.04 of the GEM Listing Rules. Save as our Controlling Shareholders' interests in our Company, none of our Directors and the Controlling Shareholders and their respective close associates is engaged in any business which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 11.04 of the GEM Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from the Controlling Shareholders and their close associates upon Listing for the reasons stated below:

Financial independence

We have an independent financial system and make financial decisions according to our own business needs. We have sufficient capital to operate our business independently, and have adequate internal resources to support our daily operations. Our Directors confirm that we will not rely on our Controlling Shareholders for financing upon Listing as we expect that our working capital will be funded by our operating income and bank borrowings.

Our Group has its own financial management system and the ability to operate independently of the Controlling Shareholders from a financial perspective.

Based on the above, our Directors believe that we are able to maintain financial independence from the Controlling Shareholders.

Operational independence

While our Board has full rights to make decisions on the overall strategic development and management and operational aspects of our Group, our Group has established our own organisational structure comprising of individual departments, each with specific areas of responsibilities. Our Group

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

has not shared our operational resources such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their close associates. The capability of our Group to operate independently from the Controlling Shareholders is not considered to be a concern.

Management independence

Our Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Xie, one of our Controlling Shareholders, is an executive Director, our Chairman and our Chief Executive Officer. Each of Ms. Gong and Mr. Song is a non-executive Director.

Each of our Directors is aware of his/her fiduciary duties as a director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum for the relevant meeting. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only.

Each of Mr. Xie, Ms. Gong and Mr. Song, being our Controlling Shareholders, has undertaken to us that he or she will devote sufficient time and efforts to discharge his or her fiduciary duties and responsibilities as our Directors.

Based on the above, our Directors are satisfied that our Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently.

NON-COMPETITION UNDERTAKING

Each of Mr. Xie, Mr. Song, Ms. Gong, Perfect Wave, Oceanic Expert, Thinker Global, Waterman Global, Topman Ventures and Great Time (collectively, the “Covenanters”) has entered into a Deed of Non-Competition on 24 November 2015 in favour of our Company, pursuant to which the Covenanters have undertaken, jointly and severally, to our Company that they would not, and that their close associates (except any member of our Group) would not, during the restricted period set out below, directly or indirectly, either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with our existing core business (the “Restricted Business”).

Such Deed of Non-Competition does not apply in relation to:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business which has first been offered or made available to our Company, and our Company, after review and approval by our Directors or shareholder as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Restricted Business, provided that the principal terms by which the Covenanters (or their relevant associate(s)) subsequently invest, participate, engage in or operate the Restricted Business are not more favourable than those made available to our Company; or

- (b) any interests in the shares or equity interest of any member of the Group; or
- (c) interests in the shares of a company whose shares are listed on a recognised stock exchange, provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by the Covenanters and their close associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenanters and their close associates are not entitled to appoint a majority of the directors of that company.

The "restricted period" stated in the Deed of Non-Competition refers to the period during which (i) our Shares remain listed on the Stock Exchange; (ii) the Covenanters and their close associates, individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of our Company; and/or (iii) the Covenanters remain as a director of any member of our Group.

The Covenanters have further undertaken to procure that, during the restricted period, any business investment or other commercial opportunity relating to the Restricted Business (the "New Opportunity") identified by or offered to them, is first referred to us in the following manner:

- (a) the Covenanters are required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the "Offer Notice"); and
- (b) the Covenanters will be entitled to pursue the New Opportunity only if (i) they have received a notice from us declining the New Opportunity and confirming that such New Opportunity would not constitute competition with our core business, or (ii) they have not received such notice from us within thirty (30) business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunity pursued by the Covenanters, they will refer the New Opportunity as so revised to us in the manner as set out above.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Upon receipt of the Offer Notice, we will seek opinions and decisions from our Board committee comprising independent non-executive Directors who do not have a material interest in the matter, as to whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity.

Our Directors consider that our independent non-executive Directors have sufficient experience in assessing whether or not to take up any New Opportunity. Our Board committee comprising independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-Competition by the Covenanters, including any New Opportunity. In any event, the committee formed by our independent non-executive Directors may appoint financial advisers or professional experts to provide advice, at the cost of our Company, in connection with whether to take up any New Opportunity.

The Covenanters have further undertaken to our Company to:

- (a) procure that all relevant information relating to the implementation of the Deed of Non-Competition in their possession and/or the possession of any of their close associates be provided to us;
- (b) allow, subject to confidentiality restrictions imposed by any third party, our representatives and those of our advisers to have access to their financial and corporate records as may be necessary for us to determine whether the Deed of Non-Competition has been complied with by the Covenanters and their associates;
- (c) provide us, within twenty (20) business days from the receipt of our written request, with a written confirmation in respect of their compliance and that of their close associates with the Deed of Non-Competition and consent to the inclusion of such confirmation in our annual reports; and
- (d) provide all information necessary for the annual review by the Board committee comprising independent non-executive Directors and the enforcement of the Deed of Non-Competition.

The Covenanters (for themselves and on behalf of their close associates (except for any member of our Group)) have also acknowledged that we may be required by applicable laws, regulations, rules of stock exchange(s) on which we may be listed and relevant regulatory bodies, to disclose, from time to time, information on the New Opportunity, including but not limited to disclosure in public announcements or our annual reports of decisions made by us to pursue or decline such New Opportunity and have agreed to such disclosure to the extent necessary to comply with any such requirement.

DEED OF INDEMNITY AND NON-DISPOSAL UNDERTAKINGS

Our Controlling Shareholders have entered into a Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) in connection with, among other things, any taxation (including estate duty) falling on any member of our Group resulting from any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the date on which the Placing becomes unconditional. For details, please refer to the paragraph headed “Appendix V — Statutory and General Information — Other Information — 1. Indemnity” of this prospectus. Our Controlling Shareholders have also entered into certain undertakings in relation to restrictions on disposal of Shares upon Listing. For details, please refer to the paragraph headed “Underwriting — Activities by Syndicate Members — Undertakings” of this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing, the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, 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 members of our Group other than our Company:

Name of shareholder	Capacity/nature of interest	Number of Shares <i>(Note 1)</i>	Approximate percentage of shareholding
Oceanic Expert	Beneficial owner	91,350,000(L)	30.45%
Perfect Wave	Interested in controlled corporation <i>(Note 2)</i>	91,350,000(L)	30.45%
Mr. Xie	Interested in controlled corporation <i>(Note 2)</i>	91,350,000(L)	30.45%
Waterman Global	Beneficial owner	67,117,500(L)	22.37%
Thinker Global	Interested in controlled corporation <i>(Note 3)</i>	67,117,500(L)	22.37%
Ms. Gong	Interested in controlled corporation <i>(Note 3)</i>	67,117,500(L)	22.37%
Great Time	Beneficial owner	44,032,500(L)	14.68%
Topman Ventures	Interested in controlled corporation <i>(Note 4)</i>	44,032,500(L)	14.68%
Mr. Song	Interested in controlled corporation <i>(Note 4)</i>	44,032,500(L)	14.68%
Woody Industrial Limited	Beneficial owner <i>(Note 5)</i>	22,500,000(L)	7.5%
Acute Capital Investments Limited	Interested in controlled corporation <i>(Note 5)</i>	22,500,000(L)	7.5%
Mr. Yang Chen Kuo	Interested in controlled corporation <i>(Note 5)</i>	22,500,000(L)	7.5%

SUBSTANTIAL SHAREHOLDERS

Notes:

1. The letter “L” denotes long position in the Shares.
2. Mr. Xie holds the entire issued shares of Perfect Wave and Perfect Wave holds the entire issued shares of Oceanic Expert. Therefore, Mr. Xie is deemed or taken to be interested in all the Shares which are beneficially owned by Oceanic Expert.
3. Ms. Gong holds the entire issued shares of Thinker Global and Thinker Global holds the entire issued shares of Waterman Global. Therefore, Ms. Gong is deemed or taken to be interested in all the Shares which are beneficially owned by Waterman Global.
4. Mr. Song holds the entire issued shares of Topman Ventures and Topman Ventures holds the entire issued shares of Great Time. Therefore, Mr. Song is deemed or taken to be interested in all the Shares which are beneficially owned by Great Time.
5. Mr. Yang Chen Kuo holds the entire issued shares of Acute Capital and Acute Capital holds the entire issued shares of Woody Industrial Limited. Therefore, Mr. Yang Chen Kuo is deemed or taken to be interested in the Shares which are beneficially owned by Woody Industrial Limited.

For details our Directors’ interests in our Shares immediately following the completion of the Placing, please refer to the section headed “Further information about Directors and Shareholders — Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations” in Appendix V to this prospectus.

Save as disclosed herein, our Directors are not aware of any persons (who are not Directors or chief executive of our Company) who will, immediately following completion of the Placing, have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or will be 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 members of our Group other than our Company.

SHARE CAPITAL

SHARE CAPITAL

The share capital of our Company immediately after completion of the Placing is set out in the table below. The table is prepared on the basis of the Placing becoming unconditional and the issue of Placing Shares pursuant thereto is made as described herein. It takes no account of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to Directors as referred to below or otherwise.

Authorised share capital: *HK\$*

<u>2,000,000,000</u> Shares	<u>20,000,000</u>
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Issued and to be issued, fully paid or credited as fully paid

225,000,000 Shares in issue as at the date of this prospectus	2,250,000
<u>75,000,000</u> Placing Shares to be issued pursuant to the Placing	<u>750,000</u>

Total

<u>300,000,000</u> Shares	<u>3,000,000</u>
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Minimum public float

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total number of issued shares of our Company must at all times be held by the public. The 75,000,000 Placing Shares represent 25% of the issued share capital of our Company upon the Listing.

Ranking

The Placing Shares will rank *pari passu* in all respects with all other Shares now in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to allot and issue and deal with the unissued Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Placing; and
- (b) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

SHARE CAPITAL

This mandate does not cover Shares to be allotted, issued and dealt in pursuant to a rights issue or pursuant to the exercise of subscription rights attaching to any scrip dividends or similar arrangements or any other option scheme or similar arrangement for the time being adopted.

The general mandate will remain in effect until:

- (a) the conclusion of the next annual general meeting of our Company; or
- (b) the expiration of the period within which our Company's next annual general meeting is required to be held by the Articles or any applicable law of the Cayman Islands; or
- (c) the time when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever occurs the earliest.

Further information on this general mandate is set out in the section headed "Further information about our Company — Resolutions in writing of all Shareholders passed on 24 November 2015" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue following completion of the Placing.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and such repurchases are made in accordance with all applicable laws and the requirements of GEM Listing Rules.

The general mandate to repurchase Shares will remain in effect until:

- (a) the conclusion of the next annual general meeting of our Company; or
- (b) the expiration of the period within which our Company's next annual general meeting is required to be held by the Articles or any applicable law of the Cayman Islands; or
- (c) the time when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever occurs the earliest.

Further information on this general mandate is set out in the sections headed "Further information about our Company — Resolutions in writing of all Shareholders passed on 24 November 2015" and "Further information about our Company — Securities repurchase mandate" in Appendix V to this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. For details, please see the sub-section headed “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — Alteration of capital” in Appendix IV to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, see the sub-section headed “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — Variation of rights of existing shares or classes of shares” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

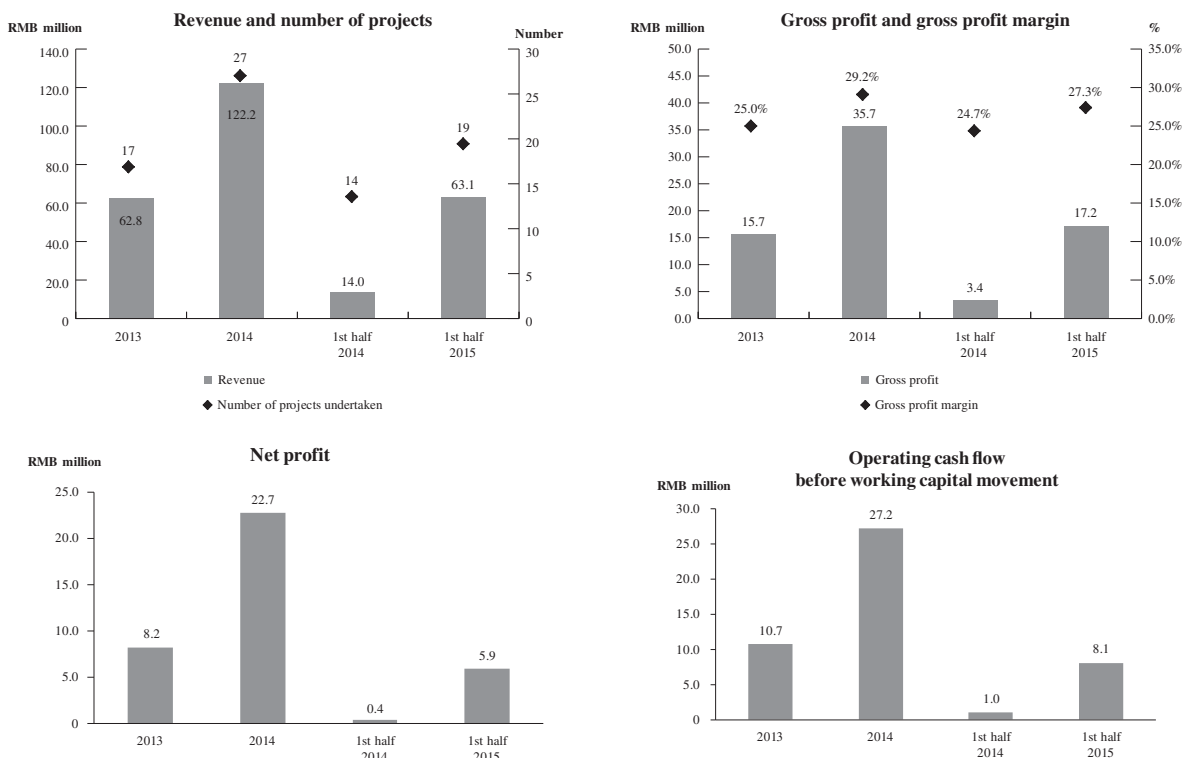
You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our combined financial information as at 31 December 2013 and 2014 and 30 June 2015 and for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 and the accompanying notes set out in the Accountants' Report set forth in Appendix I to this prospectus. Our Group's combined financial information has been prepared in accordance with HKFRSs, which may differ from the generally accepted accounting principles in other jurisdictions in certain material aspects.

The discussions and analysis in this section of the prospectus contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and interpretation of historical trends, current conditions and expected future developments as well as other factors that we believe are appropriate under the relevant circumstances. However, whether our actual results reported in future periods differ materially from those discussed below depends on various factors which we do not have any control over. Factors that could cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this prospectus, particularly in the sections headed "Forward-Looking Statements" and "Risk Factors".

OVERVIEW

We principally engage in providing engineering services for building wastewater treatment facilities and other environment protection facilities. Please refer to the section headed "Business — Overview" of this prospectus for further details of our business.

We have achieved rapid growth in revenue and profit during the Track Record Period. The snapshots of our financial performance over the Track Record Period are set out below:



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% change in	2014 vs. 2013	1st half 2015 vs. 1st half 2014
Revenue	+94.6%	+350.7%
Gross profit	+127.4%	+405.9%
Net profit	+176.8%	+1,375.0%
Operating cash flow before working capital movement	+154.2%	+710.0%

Please refer to the paragraph headed “Period-to-Period Comparison of Results of Operations” in this section for details.

BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 March 2015 and became the holding company of the subsidiaries now comprising our Group on 10 July 2015 pursuant to the Reorganisation, details of which are set out in the section headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus. As the Reorganisation only involved inserting new holding entities at the top of existing companies and has not resulted in any change of economic substances of our Group, the financial information in the Accountants’ Report included as Appendix I to this prospectus has been prepared as a continuation of Guangzhou Great Water and its subsidiary using the pooling of interests method as if the current group structure has been in existence throughout the Track Record Period.

Our combined financial information has been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All intra-group transactions and balances have been eliminated on combination.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates refer to those accounting policies and estimates that entail significant uncertainty and judgement, and could yield materially different results under different conditions and/or assumptions. The preparation of the financial information in conformity with HKFRSs requires our management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The methods and approach that we use in determining these items is based on our experience, the nature of our business operations, the relevant rules and regulations and the relevant circumstances. These underlying assumptions and estimates are reviewed regularly as they may have a significant impact on our operational results as reported in our combined financial statements included elsewhere in this prospectus.

The significant accounting policies, judgements and estimates are set forth in Note 2.4 and 3 to the Accountants’ Report in Appendix I to this prospectus. We set out below selected critical accounting policies adopted and estimates made in the preparation of our financial statements which we believe are both important to the presentation of our financial statements and involve the most significant estimates and judgements.

FINANCIAL INFORMATION

Revenue recognition

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

For EPC projects and construction projects

Revenue is recognised based on percentage of completion method, measured by proportion of costs incurred to estimated total cost for the relevant project. The estimated total costs (including procurement cost of materials, costs of sub-contracting, direct labour and direct overheads) are derived from management estimation, based on the costs as agreed with the relevant suppliers and sub-contractors, as well as the budgeted direct labour cost and overheads.

For equipment projects

Revenue is recognised upon equipment and machinery having been delivered to, examined and accepted by our customers so that significant risks have been transferred and ownership title has been passed to customers, regardless of the timing of the issuance of the relevant invoice for VAT tax purposes.

O&M and technical advisory projects

The revenue from O&M projects is recognised upon relevant operation and maintenance services being rendered pursuant to the agreed contract amount. Revenue from technical advisory projects is recognised based on percentage of completion method, measured by proportion of costs incurred as compared to total estimated costs, including labour and other overheads directly incurred in the projects.

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will be probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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Financial assets — Loans and receivables

Initial recognition and measurement

The loans and receivables are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to the initial recognition, loans and receivables are carried at amortised cost, less any provision for impairment.

Impairment of trade receivables

We assess at the end of each reporting period whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, we should consider factors or changes in circumstances indicating the probability of insolvency, or significant financial difficulties, or default and significant delay in payments of the debtors.

Our Group maintains an allowance for the estimated loss arising from the inability of our debtors to make the required payments, based on our judgement and estimates by reference to the ageing of the receivable balances, debtors' creditworthiness, past payment history and historical write-off experience. If the financial condition of our debtors was to deteriorate so that the actual impairment loss might be higher than expected, we would be required to revise the basis of making the allowance.

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

FINANCIAL INFORMATION

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value based on the valuation carried out by an independent property valuer. Gains or losses arising from changes in the fair values of investment properties are included in our combined statements of profit or loss and other comprehensive income in the year in which they arise.

For a transfer from investment properties to owner-occupied properties, the cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by our Group as an owner-occupied property becomes an investment property, we shall account for such property in accordance with the policy applicable to our property, plant and equipment up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as a movement in the asset revaluation reserve.

The valuation of the investment properties is based on direct comparison. In the absence of current prices in an active market for an identical property, the fair value was based on a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; and (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

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Foreign currencies

Our financial information is presented in RMB, being the principal currency of the economic environment in which our Group operates. However, certain of our overseas subsidiaries determine their own functional currencies other than RMB. Such foreign currency transactions are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. As at the end of the reporting period, the assets and liabilities of these subsidiaries are translated into RMB at the exchange rates prevailing at the end of the reporting period, and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. For the purpose of the combined statements of cash flows, the cash flows of these overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe our business, financial condition and operational results have been, and will continue to be directly or indirectly affected by a number of factors, many of which are beyond our control, including:

Demand of our services as affected by change in laws and government policies in wastewater treatment industry

Demand for our wastewater treatment engineering services, particularly in the PRC, is highly dependent on a number of factors, many of which are beyond our control, including changes in laws, government policies and regulatory requirements on pollution control, as well as government spending on municipal water treatment. All these factors may affect the demand of our services, the profitability of our projects, and our future business expansion plans.

In recent years, the PRC government has been increasingly focused on national environmental protection and has published various laws, regulations, and guidance in this regards. For instance, the Action Plan for Water Pollution Prevention and Control (《水污染防治行動計劃》, or 《水十條》) promulgated and implemented in 2015 stipulates that factories in a number of targeted industrial areas should complete the construction of centralised wastewater treatment facilities before the end of 2017. Moreover, with the increasing awareness of environmental protection and the heightened wastewater treatment standards in the PRC, we believe an increasing number of the wastewater treatment systems will need to be built, upgraded or replaced. As a result, we believe that investments in industrial and municipal wastewater treatment facilities will continue to increase, which should have a positive effect on the demand of engineering services in our industry.

Notwithstanding the above favourable factors, there can be no assurance that the PRC government will not change its current policies over the wastewater treatment standard, which may in turn materially or adversely affect the outlook of our business, the profitability of our projects, and hence our results of operations. In the event the government introduces a more stringent environmental regulatory

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requirements such as the discharge standard, and we do not possess the required technical expertise or know-how to provide engineering solutions on or to build such treatment facilities to meet the new standard, our ability to acquire new business opportunities would be adversely affected.

Nature of our business is project based

We conduct our wastewater/drinking water treatment engineering services business on a project basis and the number of projects undertaken every year with respect to each of our project category is not predictable. In addition to our wastewater/drinking water project business, we plan to selectively diversify our business into other environmental protection businesses such as flue gas treatment and soil remediation. We participated in our first soil remediation project in relation to the provision of initial design and technical consultancy service and were subsequently engaged in our first soil remediation project at the end of 2014.

Our overall profitability is determined by the profitability of our individual projects and their respective contribution to our total revenue and profits. We have historically recorded accumulative losses of RMB10.3 million since our establishment in 2001 and up to and including 31 December 2012 in light of the technological and financial constraints for us to carry out sizable projects to generate sufficient gross profits to cover our fixed overheads and expenses during such periods.

Our different project categories have historically experienced different gross profit margins which fluctuated during the Track Record Period, details of which is set out in the paragraph headed “Principal Component of Results of Operation — Gross Profit and Gross Profit Margin” below in this section. Going forward, our project mix, which depends on our business strategy, development of our technical know-how, prevailing market conditions, customers’ demand and regulatory requirements in respect of environmental protection, may change from time to time and affect our revenue, profitability and financial performance over time.

Our relationships with various stakeholders in the industry

During the Track Record Period, we obtained our projects through tenders by private invitation.

These tender invitations were extended to us mainly through our established business network with the various stakeholders, including BOT operators, industrial enterprises, equipment suppliers, and environmental engineering service providers, in the industry. Our senior management and sales and marketing team will continue to devote efforts and resources to strengthen and further expand this business network with industry stakeholders, as we intend to develop our business in the central and north regions of the PRC. However, there is no guarantee that business referrals can be secured after business development efforts and resources have been put in. In the event that we cannot establish an effective business network that would bring us a steady flow of project business, our overall financial performance may be adversely affected.

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Our ability to control our costs relating to our projects

As a wastewater treatment engineering service provider, we currently generate, and expect to continue to generate, a substantial portion of our revenue from our EPC, construction and equipment projects, which generally have a pre-determined contract price agreed up front with our customers. We usually determine our contract price based on our estimated project cost plus a margin.

We rely on our effective control of operating costs to maintain our profitability. Our cost of sales mainly comprise cost of materials, cost of sub-contracting and direct labour.

Our cost estimates are subject to a number of assumptions, including those about future economic conditions, the cost and availability of labour and materials, sub-contractor's performance, estimated duration of the projects, and the construction and technical standards to be applied for a project. If we fail to price the projects appropriately, we may be exposed to the risk of any cost overruns in terms of equipment costs and/or sub-contracting costs when we actually execute the projects. Cost overruns, whether due to inflation, inefficiency, inaccurate estimates or other factors, may result in a lower profit or even a loss for the project. In addition, in our EPC projects, we generally retain sub-contractors to construct the water and wastewater treatment facilities. Therefore, our ability to select and supervise sub-contractors as well as to minimise our risk of exposure resulted from their defaults would impact our financial performance.

Hypothetical sensitivity analysis on cost of sales

The following sensitivity analysis of the estimated increase/decrease of our gross profit and net profit illustrates the impact of hypothetical fluctuations in the cost of materials and cost of sub-contracting assuming all other variables remain constant during the Track Record Period:

	Gross profit <i>RMB'000</i>	Increase/ (decrease) in gross profit <i>RMB'000</i>	Net profit <i>RMB'000</i>	Increase/ (decrease) in net profit <i>RMB'000</i>
<i>For the year ended 31 December 2013</i>				
Cost of materials increase/decrease by:				
+15%	12,327.7	(3,395.3)	5,354.1	(2,862.9)
+10%	13,459.5	(2,263.5)	6,308.4	(1,908.6)
+5%	14,591.2	(1,131.8)	7,262.7	(954.3)
0%	15,723.0	—	8,217.0	—
-5%	16,854.8	1,131.8	9,171.3	954.3
-10%	17,986.5	2,263.5	10,125.6	1,908.6
-15%	19,118.3	3,395.3	11,079.9	2,862.9

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	Gross profit	Increase/ (decrease) in gross profit	Net profit	Increase/ (decrease) in net profit
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of subcontracting increase/decrease by:				
+15%	12,367.2	(3,355.8)	5,387.4	(2,829.6)
+10%	13,485.8	(2,237.2)	6,330.6	(1,886.4)
+5%	14,604.4	(1,118.6)	7,273.8	(943.2)
0%	15,723.0	—	8,217.0	—
-5%	16,841.6	1,118.6	9,160.2	943.2
-10%	17,960.2	2,237.2	10,103.4	1,886.4
-15%	19,078.8	3,355.8	11,046.6	2,829.6

	Gross profit	Increase/ (decrease) in gross profit	Net profit	Increase/ (decrease) in net profit
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

For the year ended 31 December 2014

Cost of materials increase/decrease by:

+15%	25,539.0	(10,188.0)	13,938.9	(8,773.1)
+10%	28,935.0	(6,792.0)	16,863.3	(5,848.7)
+5%	32,331.0	(3,396.0)	19,787.6	(2,924.4)
0%	35,727.0	—	22,712.0	—
-5%	39,123.0	3,396.0	25,636.4	2,924.4
-10%	42,519.0	6,792.0	28,560.7	5,848.7
-15%	45,915.0	10,188.0	31,485.1	8,773.1

Cost of subcontracting increase/decrease by:

+15%	33,312.1	(2,414.9)	20,632.4	(2,079.6)
+10%	34,117.1	(1,609.9)	21,325.6	(1,386.4)
+5%	34,922.1	(804.9)	22,018.8	(693.2)
0%	35,727.0	—	22,712.0	—
-5%	36,531.9	804.9	23,405.2	693.2
-10%	37,336.9	1,609.9	24,098.4	1,386.4
-15%	38,141.9	2,414.9	24,791.6	2,079.6

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	Gross profit <i>RMB'000</i>	Increase/ (decrease) in gross profit <i>RMB'000</i>	Net profit/ (loss) <i>RMB'000</i>	Increase/ (decrease) in net profit <i>RMB'000</i>
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For the six months ended 30 June 2015

Cost of materials increase/decrease by:

+15%	11,942.3	(5,280.8)	1,467.5	(4,424.5)
+10%	13,702.5	(3,520.5)	2,942.3	(2,949.7)
+5%	15,462.8	(1,760.3)	4,417.2	(1,474.8)
0%	17,223.0	—	5,892.0	—
-5%	18,983.3	1,760.3	7,366.8	1,474.8
-10%	20,743.5	3,520.5	8,841.7	2,949.7
-15%	22,503.8	5,280.8	10,316.5	4,424.5

Cost of subcontracting increase/decrease by:

+15%	15,852.6	(1,370.4)	4,743.8	(1,148.2)
+10%	16,309.4	(913.6)	5,126.5	(765.5)
+5%	16,766.2	(456.8)	5,509.3	(382.7)
0%	17,223.0	—	5,892.0	—
-5%	17,679.8	456.8	6,274.7	382.7
-10%	18,136.6	913.6	6,657.5	765.5
-15%	18,593.4	1,370.4	7,040.2	1,148.2

Changes in qualification requirements relating to the services we offer

As a wastewater treatment engineering service provider, our business and operations in the PRC require permits, licences and certificates from the relevant government authorities. Our Group currently obtained the Qualification of Environmental Engineering Professional Contractor (Level 3) and Environmental Engineering Specialty Design Qualification (Class B), both of which are the lowest class of the respective qualification type. Through upgrading our qualifications to higher level/class, which requires us to fulfil additional qualification requirements as stipulated in the relevant laws and regulations, such as hiring sufficient professional personnel and meeting the capital requirements, we can undertake larger scale projects which may broaden our revenue sources and improve our business performance.

From time to time, changes in the rules and regulations or the implementation thereof may require us to obtain additional approvals and licences from competent authorities for our continuous operations in the PRC. In such event, we may need to incur additional expenses in order to comply with such requirements. In addition, some of these licences, permits and certificates are subject to periodic reviews and renewals by the relevant governmental authorities and the standards of compliance may change from time to time without advance notice. Any changes in the existing government policies and regulations and licensing/qualification requirement relating to the wastewater treatment engineering service industry

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may result in additional costs of compliance, or increased risk of failure to obtain or maintain such permits, licences and certificates, which could have a material adverse impact on our operations and financial performance.

Our ability to be technically competitive

The market in which we conduct our business is highly fragmented and competitive, characterised by rapid technological advancement, and intense competition for wastewater treatment engineering projects. We compete on the basis of our ability to provide optimised engineering designs and practical solutions to our customers, timely rectification of defects in the treatment system during warranty period, brand recognition and track record, quality customised equipment, competitive pricing and payment terms. In light of continuous update of new government standards on wastewater discharge and evolution of new industrial processes, it is essential that we maintain our key competitive strengths including our ability to customise and adapt existing technologies to the differing challenges posed by wastewater from diverse industries. During the Track Record Period, in addition to our in-house R&D activities such as laboratory tests and pilot runs on adapted treatment technologies, we also practised applied R&D approach and developed our technical competence through on-going participation in various wastewater treatment projects. Through adapting and modifying our existing treatment technologies, we continuously make keen efforts in enhancing our technical know-how. Our ability to maintain or further increase our profitability will be highly dependent on our ability to compete on the above basis and differentiate ourselves from our competitors in terms of technical competence and pioneering in innovative and effective engineering design. Please refer to the section headed “Industry Overview — Competitive landscape of wastewater treatment engineering services industry in the PRC” of this prospectus for further details.

Taxation

Our future profitability will be affected by changes in tax rates in the countries or regions where we operate our business, particularly in the PRC, where we currently carry out a substantial part of our business and derive a substantial portion of our revenue and profit. Any changes in the tax rates applicable to our business in the PRC or Vietnam in the future will affect our tax expenses and hence our after-tax profit.

Our effective tax rates, calculated as the income tax expense divided by the profit before income tax, for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 were 15.7%, 14.6% and 26.0%, respectively. Under the EIT Law, enterprises in the PRC are generally subject to a uniform 25% enterprise income tax rate on their worldwide income. Guangzhou Great Water was subject to 15% enterprise income tax rate for three years, as a result of its accreditation as a High and New Technology Enterprise by the relevant authorities in the PRC approved in November 2012. If such approval is not granted, Guangzhou Great Water will be subject to the normal PRC enterprise income tax rate of 25% upon the expiry of the validity period of its current High and New Technology Enterprise certificate in November 2015, which may impact on our financial condition and results of operation to our subsidiary.

Furthermore, any profits we generate from the Vietnamese Subsidiary will be subject to corporate income tax under the Corporate Income Tax Law in Vietnam at the rate of 22% until 31 December 2015. From 1 January 2016, the corporate income tax will be adjusted to 20% if annual turnover of the Vietnamese Subsidiary does not exceed VND20 billion (approximately RMB5.6 million).

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SUMMARY OF RESULTS OF OPERATIONS

We commenced our operation when Guangzhou Great Water was incorporated in 2001. During the initial years of our operation, the projects we undertook were usually small in scale and some were of rather thin margins, as we were constrained by our limited capital base and lack of a proven track record. Although we adopted a cost plus approach in our pricing policy on an individual project basis, the gross profits derived from our projects were insufficient to cover the general overheads and management expenses. This explained why we had accumulated losses of RMB10.3 million at the commencement of our Track Record Period (please refer to page I-6 of Appendix I — Accountants' Report). In mid-2012, we increased our capital base, which has enabled us to take on some sizable projects and subsequently achieved overall profitability in our operation in 2013 and 2014.

The following table sets forth selected data from our combined statements of profit or loss and other comprehensive income for the years/periods indicated, which have been derived from, and should be read in conjunction with the Accountants' Report set forth in Appendix I to this prospectus.

	Year ended 31 December		Six months ended	
	2013	2014	30 June	
	<i>RMB'000</i>	<i>RMB'000</i>	2014	2015
			<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Unaudited)</i>	
Revenue	62,816	122,222	13,956	63,051
Cost of sales	<u>(47,093)</u>	<u>(86,495)</u>	<u>(10,511)</u>	<u>(45,828)</u>
Gross profit	15,723	35,727	3,445	17,223
Other income and gains	2,076	2,449	989	1,330
Selling and distribution expenses	(816)	(989)	(335)	(954)
Administrative expenses	(7,074)	(10,316)	(3,580)	(9,472)
Other expenses	(1)	(104)	—	—
Finance costs	<u>(163)</u>	<u>(160)</u>	<u>(5)</u>	<u>(167)</u>
Profit before tax	9,745	26,607	514	7,960
Income tax expense	<u>(1,528)</u>	<u>(3,895)</u>	<u>(110)</u>	<u>(2,068)</u>
Profit for the year/period	8,217	22,712	404	5,892
Other comprehensive income ⁽¹⁾	<u>1,725</u>	<u>1,633</u>	<u>1,634</u>	<u>(13)</u>
Total comprehensive income for the year/period	<u>9,942</u>	<u>24,345</u>	<u>2,038</u>	<u>5,879</u>
Gross profit margin⁽²⁾	25.0%	29.2%	24.7%	27.3%
Net profit margin⁽³⁾	13.1%	18.6%	2.9%	9.3%
Net profit margin (excluding listing expenses)⁽⁴⁾	13.1%	19.8%	2.9%	16.9%

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Notes:

- (1) Other comprehensive income consists of surplus on revaluation upon transfer from owner-occupied properties to investment properties and the corresponding income tax effect, as well as exchange differences on translation of foreign operations.
- (2) Gross profit margin is calculated by dividing gross profit for the year/period by revenue for the year/period and expressed as a percentage.
- (3) Net profit margin is calculated by dividing profit for the year/period by revenue for the year/period and expressed as a percentage.
- (4) Net profit margin (excluding listing expenses) is calculated by dividing profit (excluding listing expense) for the year/period by revenue for the year/period and expressed as a percentage.

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, we generated revenue of RMB62.8 million, RMB122.2 million, RMB14.0 million and RMB63.1 million, respectively.

The following table shows the revenue breakdown by business segments and project category of our Group for the periods/years indicated:

	Year ended 31 December						Six months ended 30 June					
	2013		2014		2014		2015					
	RMB'000	Number of projects ⁽¹⁾	RMB'000	Number of projects ⁽¹⁾	RMB'000	Number of projects ⁽¹⁾	RMB'000	Number of projects ⁽¹⁾	RMB'000	Number of projects ⁽¹⁾	RMB'000	Number of projects ⁽¹⁾
Wastewater/Drinking Water Treatment Projects												
— EPC projects	42,147	67.1	5	25,624	21.0	7	4,206	30.1	4	5,655	9.0	3
— Equipment projects	—	—	—	68,365	55.9	6	3,999	28.7	1	44,908	71.2	3
Subtotal	42,147	67.1	5	93,989	76.9	13	8,205	58.8	5	50,563	80.2	6
Other Environmental Protection Projects												
— Construction projects	2,807	4.5	1	722	0.6	1	73	0.5	1	10,734	17.0	3
— Equipment projects	16,666	26.5	4	18,967	15.5	2	4,924	35.3	2	33	0.1	1
Subtotal	19,473	31.0	5	19,689	16.1	3	4,997	35.8	3	10,767	17.1	4
O&M/Technical advisory services												
	1,196	1.9	7	8,544	7.0	11	754	5.4	6	1,721	2.7	9
TOTAL	62,816	100.0	17	122,222	100.0	27	13,956	100.0	14	63,051	100.0	19

Note:

- (1) As certain projects commence in one financial period and are completed in another financial period, the number of projects contributing to revenue recognised is not necessarily equal to the number of project completed during the year/period.

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We derived revenue from 17, 27 and 19 projects for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. In regard to our top five projects (based on the amount of revenue recognised during the year/period), the revenue of each of the top five projects for the year ended 31 December 2013 ranged from RMB2.8 million to RMB22.9 million, and in aggregate contributed 97.2% of our total revenue for the year. The revenue of each of the top five projects for the year ended 31 December 2014 ranged from RMB10.7 million to RMB19.3 million, and in aggregate contributed 61.7% of our total revenue for the year. The revenue of each of the top five projects for the six months ended 30 June 2015 ranged from RMB3.4 million to RMB25.9 million, and in aggregate contributed 92.6% of our total revenue for the period. For further details of our top five projects, please refer to the paragraph headed “Business — Our Business Segments — Our Top Five Projects” in this prospectus.

Wastewater/Drinking Water Treatment Projects

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, 67.1%, 76.9%, 58.8% and 80.2% of our revenue was derived from our wastewater/drinking water treatment projects. During the Track Record Period, we generated revenue from our wastewater and drinking water treatment engineering services provided in the following manner:

- **EPC projects** — we assume the role of the main contractor in charge of overall project management from initiation to commission for a pre-determined contract amount. Revenue derived from EPC projects under the wastewater/drinking water treatment industry for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015 represented 67.1%, 21.0%, 30.1% and 9.0% of our total revenue, respectively. Most of our EPC project customers were industrial companies during the Track Record Period.
- **Equipment projects** — we engage in the provision of material and equipment procurement services to BOT operators in large scale municipal wastewater/drinking water treatment projects. While we did not have any revenue from equipment projects for the year ended 31 December 2013, we managed to establish business relationships with several state-owned enterprises and were able to participate as the equipment contractor in some sizable BOT projects in 2014. The revenue derived from equipment projects under the wastewater/drinking water sector represented 55.9%, 28.7% and 71.2% of our total revenue for the year ended 31 December 2014, the six months ended 30 June 2014 and 2015, respectively.

Other Environmental Protection Projects

As a result of the significant project management experience and technical know-how developed from our engagement in wastewater/drinking water treatment projects, we are also capable of serving customers seeking engineering or procurement services in other environmental protection areas. During the Track Record Period, we undertook two major construction projects, namely (i) a construction contract for performing installation work in respect of the flue gas treatment system, which generated revenue of RMB2.8 million, RMB0.7 million and RMB0.5 million for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively; and (ii) one soil remediation project work on a contaminated site in Guangzhou with a contract value of RMB10.1 million, the relevant services was fully provided and the relevant revenue was fully recognised for the six months

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ended 30 June 2015. For the years ended 31 December 2013 and 2014, and the six months ended 30 June 2014 and 2015, revenue derived from other environmental protection construction projects in aggregate represented 4.5%, 0.6%, 0.5% and 17.0% of our total revenue, respectively.

Moreover, we had also participated in other environment protection equipment projects. Majority of our revenue from this project category for the years ended 31 December 2013 and 2014 was attributable to one equipment project, which was one of our top five projects in terms of revenue contribution in 2013 and 2014, involving the procurement of equipment and machinery for the flue gas treatment system for a thermal power plant in the PRC (as mentioned above), which generated revenue of RMB16.4 million and RMB19.0 million for the years ended 31 December 2013 and 2014, respectively, representing 26.2% and 15.5% of our total revenue during the corresponding year.

O&M and Technical Advisory Services

In conjunction with our EPC, construction and equipment procurement business in wastewater/drinking water treatment and other environmental protection areas, we also generated revenue from various ancillary services rendered to our customers, including (i) routine O&M services for our customers' wastewater/drinking water treatment facilities from which we usually receive monthly service fees; and (ii) technical advisory work in connection with building and upgrading wastewater treatment and other environmental protection facilities. In aggregate, revenue derived from O&M and technical advisory services represented 1.9%, 7.0%, 5.4% and 2.7% of our total revenue for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively.

Cost of sales

Our cost of sales primarily includes materials costs, sub-contracting costs and direct labour costs.

The following table sets forth our cost of sales for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cost of materials	22,635	48.1	67,920	78.5	8,136	77.4	35,205	76.8
Cost of sub-contracting	22,372	47.5	16,099	18.6	1,710	16.3	9,136	19.9
Direct labour	1,276	2.7	1,327	1.6	537	5.1	950	2.1
Business tax and surcharges	810	1.7	1,149	1.3	128	1.2	537	1.2
Total	<u>47,093</u>	<u>100.0</u>	<u>86,495</u>	<u>100.0</u>	<u>10,511</u>	<u>100.0</u>	<u>45,828</u>	<u>100.0</u>

Our costs of materials mainly consist of (i) the costs of parts, equipment and machinery used in our EPC and construction projects; and (ii) the costs of equipment and machinery procured for our customers in equipment projects. The materials involved in these projects typically include pumps, filters, removal devices and electric control system which are sourced directly from our suppliers. In order to meet the project specifications and to facilitate implementation of our engineering designs, equipment and components such as grid screens, chemical dosage devices, reaction ponds, pipeline systems, dregs removal devices, sludge removal devices, aerators, condensation and dehydration devices may require a high degree of customisation after purchase.

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Costs relating to sub-contractors represent the outsourcing costs we incur in respect of the provision of civil construction and equipment installation works, primarily related to our EPC and construction projects.

Direct labour costs mainly consist of wages and related staff benefits of our staff in engineering and technical department, comprising mainly our engineers and technicians. As we engage sub-contractors for civil construction and installation work, our staff are mostly deployed to undertake close supervision and management of our EPC projects and O&M projects.

We were also subject to business tax in respect of our projects at a tax rate of 3% and tax surcharges during the Track Record Period.

Our costs recognised for projects, in particular cost of materials, may fluctuate on a project-by-project basis and therefore our costs in any period would depend on the project nature and technical specification of the project from which we have recognised revenue in the relevant financial period.

Gross profit and gross profit margin

For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, our gross profit was RMB15.7 million, RMB35.7 million, RMB3.4 million and RMB17.2 million, respectively, representing an overall gross profit margins of 25.0%, 29.2%, 24.7% and 27.3%, respectively. The fluctuation of our overall gross profit margin throughout the Track Record Period was attributable to the mix of our projects during the corresponding year/period.

The following table sets forth our gross profit and its margin by business segment and project category for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Wastewater/Drinking Water Treatment Projects								
— EPC projects	10,115	24.0	2,993	11.7	828	19.7	1,132	20.0
— Equipment projects	—	—	22,114	32.3	1,423	35.6	11,906	26.5
Subtotal	10,115	24.0	25,107	26.7	2,251	27.4	13,038	25.8
Other Environmental Protection Projects								
— Construction projects	460	16.4	130	18.0	12	16.4	3,266	30.4
— Equipment projects	4,439	26.6	3,082	16.3	782	15.9	5	15.2
Subtotal	4,899	25.2	3,212	16.3	794	15.9	3,271	30.4
O&M/Technical advisory services								
	709	59.3	7,408	86.7	400	53.1	914	53.1
TOTAL	15,723	25.0	35,727	29.2	3,445	24.7	17,223	27.3

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Wastewater/Drinking Water Treatment Projects

The gross profit for our wastewater/drinking water projects amounted to RMB10.1 million, RMB25.1 million, RMB2.3 million and RMB13.0 million for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing gross profit margin of 24.0%, 26.7%, 27.4% and 25.8% for the corresponding year/period. The gross profit for wastewater/drinking water treatment segment for the year ended 31 December 2013 was mainly attributable to EPC projects, whilst the gross profit for the year ended 31 December 2014 and the six months ended 30 June 2015 for the wastewater/drinking water treatment segment was mainly derived from equipment projects.

We experienced a higher gross profit margin for our equipment projects than that for our EPC projects in the wastewater/drinking water treatment segment during the Track Record Period, which we believe was mainly attributable to the following factors:

- (i) the customers for our EPC projects were mainly private industrial companies, which placed great emphasis on the cost effectiveness of their investment in wastewater/drinking water treatment facilities. In selecting the EPC contractor to conduct the contraction work, they typically would demand all potential candidates to submit quotations with detailed breakdown by cost items, thus leaving limited room for contractor to manoeuvre for higher project profitability;
- (ii) we relied substantially on sub-contractors to perform the civil construction and equipment installation works for our EPC projects, for which we would usually add around 3–5% margin to the value of such sub-contracts as our management fee. Therefore, this would bring down the overall margin of an EPC project; and
- (iii) a majority of our equipment projects under wastewater treatment segment were for municipal wastewater treatment facilities operated by BOT project companies. We were engaged by the main contractor or the sub-contractor of the municipal projects and participated as the equipment contractor. These projects usually are of large scale and have specific processing capacity, completion deadline and other technical requirements to meet. Given such requirements, the equipment contractor is required to possess sufficient technical knowledge to be eligible to take up these projects. For our equipment projects, some of the equipment procured by us is tailor-made specifically for the project facility, and the equipment supplier often needs to assemble the equipment with parts sourced from different providers. This process requires us to utilise our technical know-how in wastewater treatment to give input on the equipment design and provide customised solutions on the equipment installation and integration with the remainder of the project facility. In light of the involvement of the equipment contractor as described above, we are generally able to demand a relatively high mark up on the equipment supplied.

In selecting the contractor(s) and sub-contractor(s) (generally through tender process pursuant to their internal policies with reference to the applicable laws and regulations, if any), the project owner would not only consider bidders' pricing, but also take into account their past project experience and technical capability in meeting the construction schedule and project specifications. The project owner would be more willing to pay a higher price to those with

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better track record in similar projects. In order to avoid bidders from submitting unrealistically low bidding price for the sake of winning, for some of our projects with state-owned enterprises, the tender was conducted by an average-bid method, where the contract would be awarded to the bidder whose price was closest to the average of all bids submitted. Under the average-bid method, in order to win the tender, bidders are incentivised to submit a bid closest to the expected mean price amongst all bidders taking into account all relevant requirements of the project, as the highest and lowest bids would be dropped, and hence the project profit margin can be maintained at a relatively stable level reflecting the complexity of the project's technical requirements. Furthermore, the appointed equipment project contractor could sometimes improve the project profit margin through careful control of its costs, such as efficient management of material sourcing and procurement, and expediting the equipment installation works.

Despite the lower gross profit margin for our EPC projects in the wastewater/drinking water treatment segment, we continue to engage in EPC projects for the following reasons:

- (i) As a wastewater treatment engineering service provider, our reputation and technical know-how are built upon our participation in various EPC and construction projects. We consider with a well established business track record in EPC projects, we can further develop our equipment projects clientele, which also place strong emphasis on our project management capability and understanding of relevant skills and technology in customising the equipment supplied for projects as and when needed. Furthermore, in order to keep up with the pace of latest technology development, it is essential for us to continue participating in various wastewater/drinking water treatment EPC projects from time to time.
- (ii) As disclosed in the section headed “Laws and Regulations — laws and regulations on licences and certificates”, we have currently obtained two licenses for undertaking EPC and construction projects, namely Qualification of Environmental Engineering Professional Contractor (Level 3) (環保工程專業承包三級資質) and the Environmental Engineering Specialty Design Qualification (Class B) (環保工程專項設計乙級資質). It is stated in the section headed “Business — Our Business Objectives and Strategies” that it is our intention to upgrade our respective qualifications in order to be capable of taking on larger projects, which we believe would enhance our profitability in the future. Hence, it is essential for us to continue to participate in the wastewater/drinking water treatment EPC and Construction projects so as to accumulate the necessary project experience required for upgrading our qualifications.

Other Environmental Protection Projects

The gross profit for our other environmental protection projects amounted to RMB4.9 million, RMB3.2 million, RMB0.8 million and RMB3.3 million for the years ended 31 December 2013 and 2014, and the six months ended 30 June 2014 and 2015, respectively, representing gross profit margin of 25.2%, 16.3%, 15.9% and 30.4% for the corresponding year/period. The gross profit for construction projects under this segment for the years ended 31 December 2013 and 2014 was mainly attributable to

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a project related to the installation work relating to the flue gas treatment facility for our customer. Meanwhile, the gross profit for construction projects under this segment for the six months ended 30 June 2015 was mainly attributable to the soil remediation project on a contaminated site in Guangzhou.

The gross profit of equipment projects under this segment for the years ended 31 December 2013 and 2014 was contributed by one equipment project for supplying the equipment and machinery for construction the flue gas treatment facility as discussed above, whilst the gross profit for the six months ended 30 June 2015 was attributable to another equipment project in respect of the sale of parts.

O&M/Technical Advisory Services

The gross profit for our O&M and technical advisory services projects amounted to RMB0.7 million, RMB7.4 million, RMB0.4 million and RMB0.9 million for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing gross profit margin of 59.3%, 86.7%, 53.1% and 53.1% for the corresponding year/period. The gross profit margin for our O&M and technical advisory services was generally higher than those of our EPC, construction and equipment projects since these projects did not involve significant material input and outsourcing to sub-contractors.

Please refer to the paragraph headed “Period-to-Period Comparison of Results of Operations” below for detailed reasons for the fluctuation of gross profit and gross profit margin during the Track Record Period.

Other income and gains

The following table sets forth our other income and gains for the year/period indicated:

	Year ended 31 December		Six months ended	
	2013	2014	30 June	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Unaudited)</i>	
Rental income	1,132	1,863	970	946
Fair value gains on investment properties	316	384	—	319
Government grants	564	147	—	—
Bank interest income	64	44	19	35
Others	—	11	—	30
Total	<u>2,076</u>	<u>2,449</u>	<u>989</u>	<u>1,330</u>

Our other income and gains mainly comprise (i) net rental income, which represented rental received from tenants of our investment properties; (ii) change in fair value of our investment properties in the PRC; (iii) government grants received from the local PRC government authorities in Guangzhou in recognition of our Group’s research and development efforts in relation to food waste treatment and certain filtration technologies; and (iv) bank interest income derived from our deposits.

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Selling and distribution expenses

Our selling and distribution expenses mainly comprise salaries and staff benefits for our sales and marketing staff, transportation and travelling expenses, bidding handling fee (which is an industry practice where bidder needs to pay handling fee in a public tender), and other expenses such as entertainment expenses and telecommunication expenses.

The following table sets forth our selling and distribution expenses for the year/period indicated:

	Year ended 31 December		Six months ended	
			30 June	
	2013	2014	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Unaudited)</i>	
Salaries and staff benefits	438	521	242	419
Transportation and travelling expenses	139	330	28	445
Bidding handling fee	110	3	1	—
Others	<u>129</u>	<u>135</u>	<u>64</u>	<u>90</u>
Total	<u>816</u>	<u>989</u>	<u>335</u>	<u>954</u>

Our selling and distribution expenses were RMB0.8 million, RMB1.0 million, RMB0.3 million and RMB1.0 million, representing 1.3%, 0.8%, 2.4% and 1.5% of our total revenue for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, among which, salaries and staff benefits represented 53.7%, 52.7%, 72.2% and 43.9% of total selling and distribution expenses for the corresponding year/period, respectively.

Administrative expenses

Our administrative expenses mainly comprise salaries and staff benefits for our Directors and administrative staff, office expenses, depreciation and amortisation cost, legal and professional fees and other expenses such as R&D expenses and tax surcharges.

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The following table sets forth our administrative expenses for the year/period indicated:

	Year ended 31 December		Six months ended	
			30 June	
	2013	2014	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Unaudited)</i>	
Salaries and staff benefits	2,409	3,486	1,222	2,292
Office expenses	1,632	2,350	949	869
Legal and professional fees	123	1,867	203	4,815
Depreciation and amortisation cost	1,215	904	497	346
Travelling expenses	603	702	297	273
Entertainment expenses	315	234	86	100
Others	<u>777</u>	<u>773</u>	<u>326</u>	<u>777</u>
Total	<u><u>7,074</u></u>	<u><u>10,316</u></u>	<u><u>3,580</u></u>	<u><u>9,472</u></u>

Our administrative expenses were RMB7.1 million, RMB10.3 million, RMB3.6 million and RMB9.5 million, representing 11.3%, 8.4%, 25.7% and 15.0% of our revenue for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, among which, salaries and staff benefits represented 34.1%, 33.8%, 34.1% and 24.2% of the administrative expenses for the corresponding year/period, respectively. Listing expenses of RMB1.4 million (equivalent to HK\$1.8 million) and RMB4.8 million (equivalent to HK\$6.1 million) were included in our legal and professional fees for the year ended 31 December 2014 and the six months ended 30 June 2015, respectively.

Other expenses

Our other expenses principally comprised of loss on disposal of fixed assets, donation expenses and miscellaneous expenses during the Track Record Period.

Finance costs

Our finance costs represent interest expenses incurred on our short-term bank borrowings during the Track Record Period. For the years ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, our loan interest expenses were RMB163,000 and RMB160,000, RMB5,000 and RMB167,000, respectively. The interest rates for our bank borrowings ranged from 5.6% to 6.2% per annum during the Track Record Period.

Income tax expenses

Income tax comprises expected current taxes payable by us on our taxable income, plus movements in deferred tax assets and liabilities. We are subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of our Group are domiciled and operate.

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The following table sets forth our income tax expenses for the year/period indicated:

	Year ended 31 December		Six months ended	
			30 June	
	2013	2014	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Unaudited)</i>	
Income tax (<i>Note</i>)	1,498	4,151	51	2,343
Deferred tax charged/(credited)	<u>30</u>	<u>(256)</u>	<u>59</u>	<u>(275)</u>
Total	<u>1,528</u>	<u>3,895</u>	<u>110</u>	<u>2,068</u>

Note: Income tax represents tax payable by our Group in the PRC. We are not subject to any income tax in the Cayman Islands. Meanwhile, the Vietnamese Subsidiary was subject to corporate income tax at the rate of 22% under the Corporate Income Tax Law in Vietnam. During the Track Record Period, no provision for profit tax was made as there was no assessable profit in the Vietnamese Subsidiary.

Our effective tax rates, calculated as the income tax expenses for the year/period divided by the profit before income tax for the same period, were 15.7%, 14.6% and 26.0% for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively.

Under the EIT Law, companies operate in the PRC are subject to the corporate income tax at a rate of 25%. However, Guangzhou Great Water, being our operating subsidiary in the PRC, was recognised as a High and New Technology Enterprise by the local PRC government authority and was entitled to enjoy a preferential tax rate of 15% during the Track Record Period. Our current High and New Technology Enterprise certificate will expire in November 2015, and we have submitted the application for renewal of our certificate in July 2015. For financial reporting purpose, however, we provided for our income tax and deferred tax at the standard rate of 25% for the six months ended 30 June 2015.

Despite the fact that we had accumulated losses of RMB10.3 million in our accounts as at 1 January 2013 (please refer to page I-6 of Appendix I — Accountants' Report), we did not have any tax loss from prior years which we could utilise to offset our taxable income during the Track Record Period. This was because the accumulated losses of RMB10.3 million mainly comprised expenses and charges which were incurred between 2001 and 2012, but were not treated by the PRC tax authority as allowable deductions for enterprise income tax purpose pursuant to the relevant provisions in the EIT Law and regulations.

As confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, the Group has been in compliance with all material aspects with all the laws and regulations in relation to taxation in the PRC. Further, as confirmed by our Vietnamese Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, the Vietnamese Subsidiary has complied with all applicable tax regulations in Vietnam.

During the Track Record Period and up to the Latest Practicable Date, we did not have any dispute or issue with tax authorities which would have had a material impact on our business, financial condition or results of operations.

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2013 compared to year ended 31 December 2014

Revenue

Our overall revenue increased by RMB59.4 million or 94.6%, from RMB62.8 million for the year ended 31 December 2013 to RMB122.2 million for the year ended 31 December 2014. The significant increase was primarily attributable to (i) the substantial increase in revenue from our equipment projects under the wastewater/drinking water treatment segment and other environmental protection project segment of RMB70.7 million in aggregate; and (ii) the increase in revenue derived from our O&M/technical advisory services of RMB7.3 million for the year ended 31 December 2014.

Wastewater/Drinking Water Treatment Projects

For the years ended 31 December 2013 and 2014, revenue derived from our wastewater/drinking water projects increased by RMB51.9 million or 123.3%, from RMB42.1 million to RMB94.0 million. In light of our accumulated expertise and experiences in the wastewater treatment engineering industry in the PRC, primarily through wastewater EPC projects for private enterprises, we managed to establish business relationship with several state-owned enterprises and were able to participate as equipment contractor in more sizeable BOT projects relating to the building of municipal wastewater treatment facilities in 2014. We recorded a significant increase in the revenue derived from equipment projects under this segment by RMB68.4 million in 2014. Such significant increase was entirely due to the engagement of six wastewater treatment equipment projects expanding to provinces in the PRC other than Guangdong Province, and three of these projects had contributed revenue over RMB10 million each to our Group.

Meanwhile, our revenue derived from wastewater/drinking water EPC projects decreased from RMB42.1 million for the year ended 31 December 2013 to RMB25.6 million for the year ended 31 December 2014. We derived such revenue from seven EPC projects in 2014. One of the major EPC projects was the Vietnamese Project, which involved the construction of industrial wastewater treatment facility of a newly opened factory in Vietnam for a Vietnamese subsidiary of a reputable textile manufacturer listed on the Stock Exchange (being one of our top five projects in 2014) with a contract value of RMB27.9 million, and contributed revenue of RMB10.7 million for the year ended 31 December 2014.

Other Environmental Protection Projects

The revenue derived from other environmental protection projects remained stable for the years ended 31 December 2013 and 2014, which amounted to RMB19.5 million and RMB19.7 million, respectively. Revenue from other environmental protection construction project for 2013 and 2014 of RMB2.8 million and RMB0.7 million, respectively, was attributable to the installation work performed for the flue gas treatment project. Meanwhile, in respect of equipment projects under this segment, revenue of RMB16.7 million and RMB19.0 million for the years ended 31 December 2013 and 2014, respectively, was attributable to the procurement of equipment and machinery for the flue gas treatment facilities as mentioned above.

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O&M/Technical Advisory Services

We recorded a significant increase in revenue from our O&M and technical advisory services, from RMB1.2 million for the year ended 31 December 2013 to RMB8.5 million for the year ended 31 December 2014, which was mainly driven by the increase in the number and size of our technical advisory projects. In particular, we obtained two advisory contracts which commanded a relatively high margin, with aggregate contract value of RMB5.7 million, from a subsidiary of a state-owned environmental protection company in Hubei Province in January 2014 to act as its technical consultant to provide engineering proposals in relation to installation of boilers and dust collection systems for two of its customers (one being a thermal power plant and the other one was a steel mill, both of which are located in Guangdong Province). The relevant technical consultancy services for these two contracts were fully provided and the relevant revenue was recognised in the second half of 2014.

Cost of sales

Our cost of sales increased by RMB39.4 million or 83.7%, from RMB47.1 million for the year ended 31 December 2013 to RMB86.5 million for the year ended 31 December 2014. The increase in cost of sales was primarily attributable to the increase in cost of materials during the year, which was partially offset by the decrease in sub-contracting costs incurred in 2014.

Our cost of materials increased significantly by RMB45.3 million, from RMB22.6 million for the year ended 31 December 2013 to RMB67.9 million for the year ended 31 December 2014, which was mainly due to the growth in business volume of our equipment projects under wastewater/drinking water projects segment and other environmental protection projects segment, which increased the corresponding revenue from RMB16.7 million for the year ended 31 December 2013 to RMB87.3 million for the year ended 31 December 2014.

Our costs of sub-contracting decreased by RMB6.3 million, from RMB22.4 million for the year ended 31 December 2013 to RMB16.1 million for the year ended 31 December 2014. Since we incurred sub-contracting costs primarily for the civil construction and installation works for our EPC projects and construction projects, the decrease in sub-contracting costs in 2014 was mainly due to the fact that a large portion of the initial construction work had been performed for a number of our EPC projects and other environmental protection construction projects in 2013, and therefore the sub-contracting works lessened as these projects were proceeding towards completion in 2014.

Our direct labour remained stable in 2014 as compared to 2013 since our staff in engineering and technical department were engineers or technicians capable of handling different project categories, and thus the change in our project mix during Track Record Period had no material effect to our overall direct labour costs.

Gross profit and gross profit margin

Our gross profit increased by RMB20.0 million or 127.4%, from RMB15.7 million for the year ended 31 December 2013 to RMB35.7 million for the year ended 31 December 2014. Our gross profit margin increased from 25.0% in 2013 to 29.2% in 2014. The overall improvement in our gross profit

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margin in 2014 was mainly owing to a higher proportion of revenue was derived from the equipment projects and O&M/technical advisory projects which yielded higher gross profit margin than EPC projects.

Wastewater/Drinking Water Treatment Projects

We recorded an increase of RMB15.0 million, or 148.5% in gross profit from wastewater/drinking water projects segment, from RMB10.1 million for the year ended 31 December 2013 to RMB25.1 million for the year ended 31 December 2014. The corresponding gross profit margin for this segment was 24.0% and 26.7% in 2013 and 2014 respectively. The increase in gross profit was mainly driven by the growth in business volume of equipment projects under this segment. Specifically, gross profit from equipment projects under this segment increased from nil in 2013 to RMB22.1 million in 2014, and the corresponding gross profit margin was 32.3% in 2014, which was higher than that of wastewater/drinking water EPC projects for the same year. Please refer to the paragraph headed “Principal components of results of operations — gross profit and gross profit margin” for the reasons for the higher gross profit margin for our equipment projects.

In respect of our EPC projects under wastewater/drinking water treatment segment, we recorded a decrease in gross profit margin from 24.0% in 2013 to 11.7% in 2014. The decrease was mainly because: (i) in 2013, we completed a EPC project in Guangdong Province with contract value of RMB7.5 million (being one of our top five projects in 2013) which contributed a relatively high gross profit of RMB4.0 million (gross profit margin of 53.2%) due to the high project price achieved as a result of the tight project completion schedule as demanded by our customer; whilst (ii) in 2014, we completed the construction portion of the Vietnamese Project, where the gross profit margin for such work was around 3%, mainly attributable to the fact that we outsourced the relevant construction work to a sub-contractor, for which we only added a low margin to the value of the sub-contracting works as our management fee. The remaining portion of the Vietnamese Project, which mainly comprises the procurement of parts, equipment and machinery, and the testing and commissioning of the facility, is expected to bring in a higher gross profit margin, based on the price quotations from our suppliers, thereby rendering the overall gross profit margin of the entire Vietnamese Project to around 20–30%.

Other Environmental Protection Projects

We recorded a decrease of RMB1.7 million, or 34.7% in gross profit from other environmental protection projects segment, from RMB4.9 million for the year ended 31 December 2013 to RMB3.2 million for the year ended 31 December 2014. The gross profit for this segment for both years was mainly attributable to the equipment project for the flue gas treatment facility to support a thermal power plant in the PRC as discussed above. The lower gross profit margin recorded in 2014 was due to the lower mark up for those equipment items procured and installed for this project during the year.

O&M/Technical advisory services

Our gross profit from our O&M and technical advisory projects increased by RMB6.7 million or 957.1%, from RMB0.7 million for the year ended 31 December 2013 to RMB7.4 million for the year ended 31 December 2014, whilst our overall gross profit margin significantly increased from 59.3% to 86.7% during the same period. The increase in gross profit and gross profit margin was primarily due to

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the two advisory contracts (which commanded a relatively high margin) for engineering proposals as discussed above. These two assignments were mandated to us because a subsidiary of a state-owned environmental protection company in Hubei was under a tight timetable to complete the project work and therefore required a technical consultant in Guangdong Province who not only was able to provide the engineering proposals within a tight schedule, but also had the local knowledge as to the capabilities of different sub-contractors whom should be appointed for the work. As a result, the gross profit margin for our O&M and technical advisory services went up significantly during the year.

Other income and gains

Other income and gains increased by RMB0.3 million or 14.3%, from RMB2.1 million for the year ended 31 December 2013 to RMB2.4 million for the year ended 31 December 2014. The increase was mainly due to the increase in the rental income of RMB0.7 million arising from additional space leased, partly offset by the decrease in the amount of government grants of RMB0.4 million.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB0.2 million or 25.0% from RMB0.8 million for the year ended 31 December 2013 to RMB1.0 million for the year ended 31 December 2014. The increase was primarily due to (i) an increase in salaries and staff benefits of RMB83,000, resulting from a general salary increment to our sales staff during the years, in line with the general rise in wages in the environmental protection engineering market; and (ii) an increase in transportation expenses of RMB191,000 for additional delivery arrangements in connection with the export of equipment to be installed for the Vietnamese Project.

Administrative expenses

Our administrative expenses increased by RMB3.2 million or 45.1%, from RMB7.1 million for the year ended 31 December 2013 to RMB10.3 million for the year ended 31 December 2014. The increase was mainly due to (i) the increase in staff salaries and benefits of RMB1.1 million caused by hiring of additional staff for our Vietnamese Subsidiary and for our operation department to cope with the expansion in our operation scale, as well as the general salary increment in line with the market trend; (ii) the legal and professional fees of RMB1.4 million in connection with the Listing; and (iii) the increase of RMB0.7 million in office expenses during the year.

Other expenses

Other expenses increased by RMB103,000, from RMB1,000 for the year ended 31 December 2013 to RMB104,000 for the year ended 31 December 2014, which mainly represented the increase in the amount written off in relation to the residual value of equipment in connection with our O&M projects in 2014.

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Finance Costs

Finance costs slightly decreased by RMB3,000 or 1.8%, from RMB163,000 for the year ended 31 December 2013 to RMB160,000 for the year ended 31 December 2014. The decrease was mainly due to a decrease in loan interest expenses, reflecting the reduced use of short-term bank borrowings to replenish our working capital in 2014.

Profit before income tax

As a result of the foregoing factors, our profit before income tax increased by RMB16.9 million or 174.2%, from RMB9.7 million for the year ended 31 December 2013 to RMB26.6 million for the year ended 31 December 2014.

Income tax expenses

Our income tax expense increased by RMB2.4 million or 160.0%, from RMB1.5 million for the year ended 31 December 2013 to RMB3.9 million for the year ended 31 December 2014, which was primarily due to our increase in our profit before tax. Our effective income tax rate decreased from 15.7% for the year ended 31 December 2013 to 14.6% for the year ended 31 December 2014, which was primarily attributable to the increase in deferred tax credit in 2014.

Profit for the year and net profit margin

Our profit for the year increased by RMB14.5 million or 176.8%, from RMB8.2 million for the year ended 31 December 2013 to RMB22.7 million for the year ended 31 December 2014. Our net profit margin increased from 13.1% for the year ended 31 December 2013 to 18.6% for the year ended 31 December 2014. The increase primarily corresponded to (i) our overall substantial business expansion in wastewater/drinking water equipment projects in 2014 as discussed above, which yielded a higher profit margin than our wastewater/drinking water EPC projects; and (ii) the completion of the two relatively high margin advisory contracts during the year.

For the years ended 31 December 2013 and 2014, our Vietnamese Subsidiary (which was established in August 2013) incurred losses before tax of RMB35,000 and RMB4,000 respectively. The losses of the Vietnamese Subsidiary for the respective years were primarily because of (i) the incurrence of administrative expenses since its establishment, whilst no revenue was recognised in 2013; (ii) the low gross profit recognised from the Vietnamese Project in 2014 as discussed above, offset by the administrative expenses of RMB339,000 incurred during the year.

Six months ended 30 June 2015 compared to six months ended 30 June 2014

Revenue

Our overall revenue increased by RMB49.1 million or 350.7%, from RMB14.0 million for the six months ended 30 June 2014 to RMB63.1 million for the six months ended 30 June 2015. The increase was mainly attributable to the greater business volume we handled, particularly in relation to the equipment projects under the wastewater/drinking water treatment projects segment, as compared to that for the corresponding period in 2014. During the first half of 2015, we derived revenue from 19 projects

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as against 14 projects for six months ended 30 June 2014. The significant projects included (i) a soil remediation project with revenue contribution of RMB10.1 million; and (ii) three equipment projects under the wastewater/drinking water treatment segment where we acted as the equipment contractor for the building of municipal wastewater/drinking water treatment facilities in Liaoning Province and Hunan Province, which contributed aggregate revenue of RMB44.9 million for the six months ended 30 June 2015.

Wastewater/Drinking Water Treatment Projects

Our revenue from wastewater/drinking water treatment projects increased from RMB8.2 million for the six months ended 30 June 2014 to RMB50.6 million for the six months ended 30 June 2015, representing an increase of RMB42.4 million or 517.1%. The significant increase was attributable to the revenue recognised from three significant equipment projects under this business segment as mentioned above.

Meanwhile, our revenue derived from wastewater/drinking water EPC projects increased slightly from RMB4.2 million for the six months ended 30 June 2014 to RMB5.7 million for the six months ended 30 June 2015, represented an increase of RMB1.5 million or 35.7%. Such increase was mainly attributable to the Vietnamese Project and the wastewater treatment EPC project in Dongguan which contributed aggregate revenue of RMB5.6 million for the six month ended 30 June 2015.

Other Environmental Protection Projects

We recorded an increase in revenue from other environmental protection projects, from RMB5.0 million for the six months ended 30 June 2014 to RMB10.8 million for the six months ended 30 June 2015, which was mainly attributable to (i) the soil remediation project undertaken by us in Guangzhou which contributed revenue of RMB10.1 million for the six months ended 30 June 2015; and (ii) the continuation of the construction project involving the installation works relating to the flue gas treatment facility during the period which contributed revenue of RMB0.5 million.

O&M/Technical Advisory Services

We recognised an increase in revenue from O&M/technical advisory services from RMB0.8 million for the six months ended 30 June 2014 to RMB1.7 million for the six months ended 30 June 2015, which was mainly driven by the increased number and size of our O&M and technical advisory projects in the first half of 2015 as compared to the corresponding period in 2014.

Cost of sales

Our cost of sales increased by RMB35.3 million or 336.2%, from RMB10.5 million for the six months ended 30 June 2014 to RMB45.8 million for the six months ended 30 June 2015. Such substantial increase in cost of sales was substantially in line with the growth in our revenue and mainly attributable to the increases in cost of materials and sub-contracting costs.

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Our costs of materials increased significantly by RMB27.1 million, from RMB8.1 million for the six months ended 30 June 2014 to RMB35.2 million for the six months ended 30 June 2015, as a result of a greater number of wastewater/drinking water equipment projects undertaken during the period, which increased the corresponding revenue from RMB4.0 million for the six months ended 30 June 2014 to RMB44.9 million for the six months ended 30 June 2015.

Our costs of sub-contracting increased by RMB7.4 million, from RMB1.7 million for the six months ended 30 June 2014 to RMB9.1 million for the six months ended 30 June 2015. Such increase was mainly attributable to the engagement of sub-contractors for the soil remediation project in Guangzhou and the Vietnamese Project during the period.

Gross profit and gross profit margin

Our gross profit increased by RMB13.8 million or 405.9%, from RMB3.4 million for six months ended 30 June 2014 to RMB17.2 million for the six months ended 30 June 2015. Such increase was mainly attributable to the significant growth in our revenue achieved during the period. Our gross profit margin increased from 24.7% for the six months ended 30 June 2014 to 27.3% for the six months ended 30 June 2015, which was primarily due to a higher proportion of revenue was derived from the soil remediation project which yielded higher gross profit margin.

Wastewater/Drinking Water Treatment Projects

We recorded an increase of RMB10.7 million, or 465.2% in gross profit from the wastewater/drinking water projects segment, from RMB2.3 million for the six months ended 30 June 2014 to RMB13.0 million for the six months ended 30 June 2015. The gross profit margin for this segment was 27.4% and 25.8% for the corresponding period in 2014 and 2015 respectively. The increase in gross profit was mainly driven by the growth in the business volume of equipment projects under this segment in the first half of 2015 as our Group successfully secured three new equipment projects in Liaoning Province and Hunan Province. Specifically, gross profit from equipment projects under this segment increased significantly from RMB1.4 million for the six months ended 30 June 2014 to RMB11.9 million for the corresponding period in 2015. However, the gross profit margin decreased from 35.6% for the six months ended 30 June 2014 to 26.5% for the corresponding period in 2015.

In respect of our EPC projects under the wastewater/drinking water treatment segment, we also recorded an increase in gross profit from RMB0.8 million for the six months ended 30 June 2014 to RMB1.1 million for the corresponding period in 2015, where the gross profit margin for the same period in 2014 and 2015 was 19.7% and 20.0%, respectively. The increase in the gross profit was mainly due to the continuation of the remaining portion of the Vietnamese Project and the wastewater treatment EPC project in Dongguan, which contributed aggregate revenue of RMB5.6 million for the six months ended 30 June 2015.

Other Environmental Protection Projects

We recorded an increase of RMB2.5 million, or 312.5% in gross profit from the other environmental protection projects segment, from RMB0.8 million for the six months ended 30 June 2014 to RMB3.3 million for the six months ended 30 June 2015. The gross profit for this segment for the first half of 2015 was mainly derived from the soil remediation project as discussed above. This

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business segment recorded gross profit margin of 30.4% in the first half of 2015, which was higher than that of 15.9% for the corresponding period in 2014 due to the higher mark up for the soil remediation project as compared to those for other environmental protection projects undertaken by our Group in the first half of 2014.

O&M/Technical Advisory Services

Our gross profit from our O&M and technical advisory projects increased by RMB0.5 million or 125.0%, from RMB0.4 million for the six months ended 30 June 2014 to RMB0.9 million for the six months ended 30 June 2015, whilst our gross profit margin for this segment remained stable at 53.1% in the first half of 2015, as compared to that of 53.1% during the same corresponding period in 2014.

Other income and gains

Other income and gains increased by RMB0.3 million or 30.0%, from RMB1.0 million for the six months ended 30 June 2014 to RMB1.3 million for the six months ended 30 June 2015. The increase was mainly due to the increase in fair value gains on investment properties of RMB0.3 million (nil for the corresponding period in 2014).

Selling and distribution expenses

Our selling and distribution expenses increased by RMB0.7 million or 233.3%, from RMB0.3 million for six months ended 30 June 2014 to RMB1.0 million for the six months ended 30 June 2015. The increase was mainly due to the increase in salaries and staff benefit of RMB0.2 million in connection with the salary increment to our sales staff, as well as the increase in transportation expenses of RMB0.4 million for the Vietnamese Project.

Administrative expenses

Our administrative expenses increased by RMB5.9 million or 163.9%, from RMB3.6 million for six months ended 30 June 2014 to RMB9.5 million for the six months ended 30 June 2015. The increase was mainly due to (i) the increase in salaries and staff benefit of RMB1.1 million in connection with the salary increment to our operation staff in the PRC and addition of staff for the Vietnamese Subsidiary; and (ii) the recognition of legal and professional fees of RMB4.8 million in connection with the Listing.

Profit before income tax

Taking into account of the foregoing factors, we recorded an increase in our profit before tax by RMB7.5 million, from RMB0.5 million for six months ended 30 June 2014 to RMB8.0 million for the six months ended 30 June 2015.

Income tax expenses

Our income tax expenses significantly increased by RMB2.0 million, from RMB0.1 million for the six months ended 30 June 2014 to RMB2.1 million for the six months ended 30 June 2015, which was primarily due to the substantial increase in our profit before tax. Our effective income tax rate increased

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from 21.4% for the six months ended 30 June 2014 to 26.0% for the six months ended 30 June 2015, which was primarily attributable to the application of 25% enterprise income tax rate for our operating subsidiary in the PRC as against 15% in the prior period.

Profit for the period and net profit margin

Our profit for the period substantially increased by RMB5.5 million or 1,375.0%, from RMB0.4 million for the six months ended 30 June 2014 to RMB5.9 million for the six months ended 30 June 2015. Our net profit margin increased from 2.9% for the six months ended 30 June 2014 to 9.3% for the six months ended 30 June 2015. The significant increase was primarily due to higher revenue derived from the wastewater/drinking water equipment projects and the soil remediation project for the first half of 2015 as discussed above, both of which yielded higher profit margin.

Our Vietnamese Subsidiary generated a gain before tax of RMB0.6 million for the six months ended 30 June 2015 against a loss of RMB0.1 million for the six months ended 30 June 2014. The improvement of business performance of our Vietnamese Subsidiary was primarily owing to the revenue recognised for the construction portion of the Vietnamese Project in the first half of 2015.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we have principally financed our operations through a combination of internally generated cashflow from our operations, shareholders' funding and short-term bank borrowings. Going forward, we expect to continue our current approach of (i) relying on our internally-generated cash flows; (ii) using the proceeds from the Placing; and (iii) short-term borrowings, for our working capital requirements and capital expenditures.

We regularly monitor our liquidity requirements to ensure that we maintain sufficient cash resources of working capital and capital expenditure needs. During the Track Record Period, we did not experience any difficulties in settling our obligations in the normal course of business, which would have had a material impact to our business, financial condition or results of operations.

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Summary of Cash Flow Movements

The following table is a condensed summary of our combined statements of cash flows during the Track Record Period:

	Year ended 31 December		Six months ended
	2013	2014	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from/(used in) operating activities	6,439	10,810	(10,652)
Net cash flows used in investing activities	(606)	(160)	(1,153)
Net cash flows (used in)/from financing activities	(20,163)	3,440	13,408
Net (decrease)/increase in cash and cash equivalents	(14,330)	14,090	1,603
Cash and cash equivalents at beginning of year/period	17,775	3,446	17,532
Effect of foreign exchange rate changes, net	1	(4)	(27)
Cash and cash equivalents at end of year/period	3,446	17,532	19,108

Net cash flows from/(used in) operating activities

Our net cash inflow from operating activities is primarily derived from the receipts in provision of wastewater/drinking water treatment engineering services, other environmental protection projects, as well as O&M and technical advisory services, whilst our cash outflow used in operating activities mainly included payment of sub-contracting costs, prepayments, deposits to suppliers for procurement costs of materials as well as settlement of trade and bills payables. Our cash flow generated from/(used in) operating activities is affected by a number of factors, which include the progress of our projects and the settlement of trade receivables by our customers and trade payables by our Group.

Our net cash used in operating activities amounted to RMB10.7 million for the six months ended 30 June 2015, which was primarily attributable to the profit before tax of RMB8.0 million, adjusted for (i) non-cash items including depreciation charge of RMB0.3 million and fair value gains on investment properties of RMB0.3 million; (ii) cash inflow from an increase of RMB16.0 million in trade payables, and (iii) offset by cash outflow resulting from (a) an increase of RMB17.2 million in prepayments, deposits and other receivables; (b) an increase of RMB6.5 million in gross amount due from contract customers; (c) an increase of RMB5.1 million in trade and bills receivables; and (d) an increase of RMB3.5 million in inventory.

Our net cash generated from operating activities amounted to RMB10.8 million for the year ended 31 December 2014, which was primarily attributable to profit before tax of RMB26.6 million, adjusted for (i) non-cash items including depreciation charge of RMB0.9 million and fair value gains on investment properties of RMB0.4 million; (ii) cash outflow resulting from an increase of RMB46.5 million in trade and bills receivables; and (iii) cash inflow resulting from (a) an increase of RMB19.2 million in trade payables; and (b) an increase of RMB6.8 million in other payables and accruals, which

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mainly represented customer deposits for an EPC project and outstanding professional fees for the Listing. The aforesaid adjustments were mainly related to the progress billing and settlement for our completed and ongoing projects during the year.

Our net cash generated from operating activities was RMB6.4 million for the year ended 31 December 2013 which was primarily attributable to profit before tax of RMB9.7 million, adjusted for (i) non-cash items including depreciation charge of RMB1.2 million and fair value gains on investment properties of RMB0.3 million; (ii) cash outflow from (a) an increase of RMB13.8 million in gross amount due from contracts customers; (b) an increase of RMB13.4 million in trade and bills receivables; and (iii) offset by cash inflow resulting from an increase of RMB24.1 million in trade payables.

Net cash flows used in investing activities

Our cash outflow used in investing activities was primarily incurred to acquire property, plant and equipment. Our cash inflow from investing activities was primarily derived from the net proceeds for the disposal of equipment carried as fixed assets of our Group in connection with our business.

For the six months ended 30 June 2015, our net cash flow used in investing activities amounted to RMB1.2 million, principally reflecting the cash used in construction of an additional storey in our headquarters office building.

For the year ended 31 December 2014, our net cash flow used in investing activities amounted to RMB0.2 million, primarily reflecting the purchase of our motor vehicles.

For the year ended 31 December 2013, our net cash flow used in investing activities amounted to RMB0.6 million, primarily reflecting the purchase of motor vehicles and cash spent in improving office building of RMB0.6 million in aggregate.

Net cash flows (used in)/from financing activities

Our cash inflow from financing activities included capital injections by shareholders and proceeds from bank borrowings. Our cash outflow used in financing activities was primarily related to the repayment of bank loans and payment of listing expenses.

For the six months ended 30 June 2015, our net cash used in financing activities amounted to RMB13.4 million, primarily related to (i) drawdown of short-term bank borrowings of RMB15.0 million; and (ii) offset by the payment of the listing expenses of RMB1.4 million.

For the year ended 31 December 2014, our net cash generated from financing activities amounted to RMB3.4 million, primarily related to (i) capital contribution of RMB4.1 million from our shareholders, Woody Industrial Limited; and (ii) offset by payment of listing expenses of RMB470,000.

For the year ended 31 December 2013, our net cash flows used in financing activities amounted to RMB20.2 million, primarily related to the repayments of short-term bank borrowings amounted to RMB20.0 million to replenish our working capital.

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NET CURRENT ASSETS

The following table sets forth the breakdown of our current assets and liabilities as the dates indicated:

	As at 31 December		As at 30 June 2015	As at 30 September 2015
	2013	2014	2015	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>
CURRENT ASSETS				
Inventories	3,844	3,422	6,940	14,603
Gross amount due from contract customers	10,459	6,054	12,536	12,907
Trade and bills receivables	24,093	70,558	75,622	59,417
Prepayments, deposits and other receivables	7,806	5,131	66,487	24,698
Cash and bank balances	3,446	17,532	19,108	35,197
Total current assets	49,648	102,697	180,693	146,822
CURRENT LIABILITIES				
Trade payables	26,398	45,636	61,601	67,341
Gross amount due to contract customers	1,709	290	—	—
Other payables and accruals	4,769	11,562	54,955	8,302
Tax payable	1,444	3,004	2,986	2,719
Interest-bearing bank borrowings	—	—	15,000	15,000
Total current liabilities	34,320	60,492	134,542	93,362
Net Current Assets	15,328	42,205	46,151	53,460

Our net current assets increased by RMB26.9 million from RMB15.3 million as at 31 December 2013 to RMB42.2 million as at 31 December 2014, which was primarily driven by the combined effects of (i) an increase in trade and bill receivables of RMB46.5 million as a result of increased revenue derived from the wastewater/drinking water equipment projects in 2014; (ii) an increase in cash and bank balances of RMB14.1 million as a result of the net cash generated from our operating activities in 2014, but was partly offset by (iii) a decrease in gross amount due from contract customers of RMB4.4 million; and (iv) an increase in trade payables as well as other payables and accruals of RMB19.2 million and RMB6.8 million, respectively.

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Our net current assets slightly increased by RMB3.9 million to RMB46.2 million as at 30 June 2015, which was mainly attributable to the combined effects of (i) an increase in cash and bank balances of RMB1.6 million; (ii) increases in gross amount due from contract customers and trade and bills receivables of RMB6.5 million and RMB5.1 million respectively as related to the revenue derived from our projects during the first half of 2015; (iii) an increase in prepayments, deposits and other receivables of RMB61.4 million; but was partly offset by (iv) an increase in bank borrowings of RMB15.0 million; and (v) increases in trade payables and other payables and accruals of RMB16.0 million and RMB43.4 million respectively.

Our net current asset increased further by RMB7.3 million to RMB53.5 million as at 30 September 2015, which was mainly attributable to the combined effects of (i) an increase in inventories of RMB7.7 million as a result of the equipment of our ongoing equipment projects has been delivered to our customers' work sites pending inspection, examination and acceptance by our customers; (ii) an increase in cash and bank balances of RMB16.1 million; (iii) a decrease in other payables and accruals of RMB46.7 million mainly as a result of the settlement of the relevant subscription monies in respect of our Reorganisation (please see paragraph headed "Certain Selected Statements of Financial Position Line Items — Other Payables and Accruals" of this section below for details), but was partly offset by (iv) a decrease in prepayments, deposits and other receivables of RMB41.8 million mainly due to the settlement of the relevant subscription monies (please see paragraph headed "Certain Selected Statements of Financial Position Line Items — Prepayments, Deposits and Other Receivables" of this section below for details); (v) a decrease in trade and bills receivables of RMB16.2 million; and (vi) an increase in trade payables of RMB5.7 million.

CERTAIN SELECTED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

Inventories

Our inventories comprised of parts and equipment purchased from third parties in connection with our EPC, construction and equipment projects. We generally do not keep inventory for our projects since the necessary parts and equipment shall be purchased on a project basis in accordance with the specification and requirement of our customers. Therefore, our Group is not required to retain any inventory of parts, equipment and machinery. The inventory balance represents the parts and equipment delivered by our suppliers directly to our customers' work site pending inspection, examination, and acceptance by our customers.

Our inventories amounted to RMB3.8 million, RMB3.4 million and RMB6.9 million as at 31 December 2013, 31 December 2014 and 30 June 2015, respectively, which accounted for 7.7%, 3.3% and 3.8% of our total current assets as at corresponding year/period end. Our inventory balance as at 31 December 2013 solely comprised of the equipment in relation to a equipment project in the PRC, whereas our inventory balance as at 31 December 2014 and 30 June 2015 mainly comprised of the parts and equipment in respect of the Vietnamese Project, all of which have been delivered to our customer's work site during the Track Record Period but remained under installation, and, as specified in the relevant contract, the risk of such parts and equipment will be passed to the customer upon the full acceptance by the customer after the relevant installation is fully completed.

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As at 31 October 2015, there was 87.8% of the inventory balance as at 30 June 2015 had been subsequently used. We did not note any indication of material impairment to our inventory, such as from slow moving or otherwise obsolete inventory, over the Track Record Period and thus did not provide for any inventory impairment loss during the Track Record Period.

Inventory turnover days is calculated as the ending inventory balances for the year/period divided by the cost of sales for the year/period, multiplied by 365/180 days. Our inventory turnover days for the years ended 31 December 2013 and 2014 and 30 June 2015 were 29.8 days, 14.4 days and 27.3 days, respectively.

Gross amounts due from/to contract customers

According to our accounting policies, our Group presents the balance as an asset when the gross amount due from customers for contract works for all EPC and construction projects in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings to customers. Our Group presents the balance as a liability when the gross amount due to customers for contract works for all EPC and construction projects in progress for which progress billings to customers exceed costs incurred plus recognised profits (less recognised losses). The following table sets forth the gross amount due from/to customers for contract work for the Track Record Period:

	As at 31 December		As at 30 June
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gross amount due from contract customers	10,459	6,054	12,536
Gross amount due to contract customers	1,709	290	—

The decrease in gross amounts due from and due to contract customers as at 31 December 2014 was primarily attributable to the accomplishment of project milestones for certain of our EPC and construction projects which enabled us to effect progress billings for these projects to our customers as of 2014 year end. As at 30 June 2015, we recorded a substantial increase in gross amount due from contract customers by RMB6.5 million or 107.1% as compared to 2014, which was primarily owing to the EPC and construction projects on hand, which incurred project costs in the first half of 2015 but have not reached the relevant milestones for billing before the period end.

Trade and bills receivables

Our trade receivables represent (i) the balances due from our customers relating to EPC projects, construction projects, equipment projects, O&M and technical advisory services projects; and (ii) retention monies receivable of approximately 5% to 10% of the total contract sum, held by our relevant customers during the warranty period. The warranty period for our projects is generally one year and the settlement of due balance by our customers is upon expiration of the warranty period. Bills receivables represent receivables from our customers who pay us in short-term bank acceptance notes, typically with maturities from 6 to 12 months.

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The following table sets forth our trade and bills receivables as at the dates indicated:

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	24,093	67,808	70,375
Bills receivables	<u>—</u>	<u>2,750</u>	<u>5,247</u>
Total	<u><u>24,093</u></u>	<u><u>70,558</u></u>	<u><u>75,622</u></u>

Our trade and bills receivables increased from RMB24.1 million as at 31 December 2013 to RMB70.6 million as at 31 December 2014. The significant increase was in line with the growth of our revenue for the year ended 31 December 2014, and the fact that over 60% of our total revenue and the corresponding trade receivables were recognised during the last quarter in 2014.

As at 30 June 2015, we recorded an increase in trade and bills receivables of RMB5.1 million from the balance as at 31 December 2014, mainly as a result of the recognition of revenue and the corresponding trade receivables in the first half of 2015.

Revenue recognition and invoice issuance

Listed below are our policies for revenue recognition and invoice issuance:

	<u>EPC and construction projects</u>	<u>Equipment projects</u>
Revenue Recognition	Recognition is based on percentage of completion method, measured by proportion of costs incurred to estimated total cost per project.	Recognition is upon equipment and machinery having been delivered to, examined and accepted by our customer.
Invoice Issuance	We usually invoice our customer for the relevant portion of the contract amount when the payment obligation arises upon achieving the project milestone as specified in the contract. For annual tax reporting purpose, by each year-end, we invoice our customers for the unbilled contract amount (i.e. equivalent to the value of work completed from the last invoice issuance date up to the year-end date). For this kind of invoices for tax reporting purpose, the due date for settlement follows the next project milestone for payment obligation after the year-end.	We usually invoice our customers for the full contract amount of the goods when such goods are delivered to the customer's work site and are examined and accepted by our customer.

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For EPC and construction projects, the trade receivables are recognised when the progress payment is due upon the achievement of the project milestone as specified in the contract and agreed with the customer. For the equipment projects, revenue and the corresponding trade receivables are recognised upon the delivery, examination and acceptance of the goods by our customer.

For PRC tax reporting purpose, in respect of our EPC and construction projects, we usually invoice the customer after agreeing with the customer by the year-end for any unbilled amount of work completed from the last invoice issuance date up to the year-end date. In the event that we can obtain the tax invoice from the relevant PRC tax office in time for issuance to the customer before the year-end date, we would recognise such invoiced amount as trade receivables. If the relevant PRC tax office cannot provide us the required tax invoice for issuance before the year-end date, we would recognise the uninvoiced amount as gross amount due from contract customer. As at 31 December 2014 and 30 June 2015, we had gross amount due from contract customers amounting to RMB6.1 million and RMB12.5 million, respectively.

As set out in note 18 of the Accountants' Report in the Appendix I to this prospectus, approximately RMB34.4 million of the total trade receivables balance corresponded to the revenue recognised in accordance with our accounting policy but has not been invoiced to our customers as at 30 June 2015. Of the RMB34.4 million uninvoiced trade receivables balance, approximately RMB31.1 million was related to the revenue recognised for the equipment delivered, examined and accepted by customers in relation to the three new wastewater/drinking water treatment equipment projects undertaken in the first half of 2015. Since the relevant suppliers had not invoiced us for such equipment before the period end date, we were unable to proceed with invoicing our customers for such equipment, for the reason of offsetting the payment obligation on the output VAT arising from sales against input VAT arising from purchases. All the outstanding supplier invoices have been issued to us by October 2015 and we expect to issue invoices to our customer by November 2015. The remaining balance of the uninvoiced trade receivables balance was mainly attributable to (i) an additional purchase of spare parts amounting to RMB2.5 million after the completion of our work specified under the original equipment contract in respect of equipment procurement for the flue gas treatment facility. As agreed with the customer, we will proceed with the invoicing for such spare parts purchase upon the approval and final acceptance of the entire thermal power plant project by the customer, which is expected to take place by the end of 2015; and (ii) the final billing of RMB0.5 million in respect of the Zhujiang Project (listed as one of our top five projects for the year ended 31 December 2013 and fully completed in the third quarter of 2014), pending the final project certification by the relevant government authority, which is expected to be available in November 2015.

In respect of our policies for revenue recognition and invoice issuance set out above, as stated in the Accountants' Report, the Directors confirm that (i) the accounting treatment on revenue recognition has been adopted consistently based on our accounting policies on revenue recognition for the respective types of revenue as set out in "Note 2.4 Summary of Significant Accounting Policies — Revenue Recognition" in the Accountants' Report; (ii) our accounting policies on revenue recognition have been adopted in compliance with relevant HKFRSs, pursuant to which revenue has been recognised based on certain criteria, regardless of the timing of the issuance of the relevant invoices for VAT tax purposes. Further, as advised by our PRC Legal Advisers, our Group's arrangements of (i) recognising revenue when the equipment is delivered to, examined and accepted by our customer, without issuing the invoice

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to our customer at the same time; and (ii) issuing invoice to our customer only after the equipment has been examined and accepted by our customer, as well as the relevant invoice has been received from our supplier, do not violate relevant PRC tax laws and other relevant PRC laws and regulations.

Internal control in respect of the revenue recognition and invoice issuance

In order to ensure accuracy of revenue recognition in relation to our EPC, construction and equipment projects and the timeliness of invoice issuance, we have the following internal control measures in place:

For EPC and construction projects — At each reporting year/period end, the engineering and technical department is required to examine the progress of the relevant project and enter into a written confirmation with the customer on the percentage of completion. Such written confirmation is passed to the accounting and finance department for checking before issuing invoice.

The accounting and finance department needs to verify the percentage of completion as specified in the written confirmation with the procurement department, which monitors the progress of work performed by the sub-contractor on a regular basis. Once the written confirmation has been agreed with the procurement department, the accounting and finance department issues invoice, recognises revenue and ensures the corresponding costs are booked, based on the verified percentage of completion. During the Track Record Period, we did not have any material discrepancy between the percentage of completion as stated in the written confirmation and the work progress reported by the procurement department.

For equipment projects — Revenue is recognised when the goods are delivered, examined and accepted by the customer at its worksite. At the time when the goods are examined, our procurement department staff, together with the supplier's representative and the customer, needs to be present at the worksite. Once the goods are accepted, the customer signs an acceptance confirmation to us. The procurement department then passes such acceptance confirmation to our accounting and finance department for issuing invoice, accruing the corresponding costs and allocating cash flow for settling supplier's invoice when the payable amount comes due.

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Aged analysis

The following table sets forth a summary of the age of our trade receivables, based on the transaction date as of the balance sheet dates indicated. Transaction date refers to the date when the trade receivables are recognised upon: (i) for EPC and construction projects, the construction progress/ stage of completion is agreed with the customers; and (ii) for equipment projects, the delivery, examination and acceptance of the goods by the customer. Generally, following the occurrence of the above-mentioned events, we would issue the relevant invoice to the customers.

	As at 31 December				As at 30 June	
	2013		2014		2015	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Within one month	12,485	51.8	23,163	34.2	31,502	44.8
One to three months	6,076	25.2	26,471	39.0	505	0.7
Three months to one year	4,009	16.7	13,436	19.8	32,105	45.6
One to two years	<u>775</u>	<u>3.2</u>	<u>2,962</u>	<u>4.4</u>	<u>3,498</u>	<u>5.0</u>
	23,345	96.9	66,032	97.4	67,610	96.1
Retention monies receivable	<u>748</u>	<u>3.1</u>	<u>1,776</u>	<u>2.6</u>	<u>2,765</u>	<u>3.9</u>
Total	<u>24,093</u>	<u>100.0</u>	<u>67,808</u>	<u>100.0</u>	<u>70,375</u>	<u>100.0</u>

The credit period granted to customers is generally 30 days from the date of invoice, but can be extended up to the date of final acceptance of whole projects for certain customers. For EPC and construction projects, we invoice our customers (i) for progress payment, upon the achievement of project milestones as specified in the contract; or (ii) for tax reporting purpose, for any unbilled amount of work completed by the year-end. For the progress payment invoice, the credit period is usually 30 days. For the year-end tax reporting invoice, the payment due date falls upon the next project milestone as specified in the contract. This is the reason that we had trade receivables aged more than one year at the financial reporting date of 2014, as the relevant due dates for such invoices (based on the project milestones as specified in the respective contracts) were set at the completion of the entire EPC project, which were more than 12 months from the date of issuing such year-end tax reporting invoices.

For equipment projects, we usually invoice our customer for the full contract amount of the goods when such goods delivered to the customer's work site are examined and accepted by the customer, whilst the settlement of such invoice is by way of instalments payable upon installation of equipment and machinery and completion and final acceptance of the whole project by the customer.

For the equipment project in relation to the equipment procurement for the flue gas treatment facility to support the thermal power plant, although we have completed majority of the equipment installation in 2014 (and also recognised the relevant revenue), the final project acceptance can only be obtained from the customer after the thermal power plant together with the entire flue gas treatment

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facility are operated to their full capacity, which is expected to take place by the end of 2015. This explains the reason that we had trade receivables aged more than one year as at 30 June 2015, as the receivables falls due upon the grant of final project acceptance by the customers.

During the Track Record Period, our experience showed that it usually took around six to eight months to complete the installation work and an additional four to five months before the final acceptance of the whole project by the customer. In general, the time gap between the revenue recognition and the entire invoice settlement (excluding the settlement of retention monies) ranged from around 80 days to 400 days during the Track Record Period.

To the best of the knowledge and belief of our executive Directors, based on their industry experience, the terms of credit period granted to customers for EPC and construction projects and for equipment projects as described above are commonly adopted in the environmental engineering services industry.

The following table sets forth an aged analysis of trade receivables, based on the payment obligation date according to payment schedule specified in the relevant contracts, as of the balance sheet dates indicated:

	As at 31 December				As at 30 June	
	2013		2014		2015	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Receivable amount not due for settlement pending achievement of project milestones, or completion and final acceptance of the entire project by the customer	18,923	78.5	58,895	86.9	64,861	92.2
Within one month	4,422	18.4	7,137	10.5	1,830	2.6
One to three months	—	—	—	—	439	0.6
Three months to one year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>480</u>	<u>0.7</u>
	23,345	96.9	66,032	97.4	67,610	96.1
Retention monies receivable	<u>748</u>	<u>3.1</u>	<u>1,776</u>	<u>2.6</u>	<u>2,765</u>	<u>3.9</u>
Total	<u><u>24,093</u></u>	<u><u>100.0</u></u>	<u><u>67,808</u></u>	<u><u>100.0</u></u>	<u><u>70,375</u></u>	<u><u>100.0</u></u>

Long aged trade receivable balance

As indicated in the above aged analysis based on the payment obligation date, the trade receivable balance which aged over one month amounting to RMB0.9 million, was past due as at 30 June 2015. The past due balance was mainly related to one customer to whom we provided O&M services for its industrial wastewater treatment facility, and the customer required additional time to process the settlement with us. Such balance had been fully settled by this customer in September 2015. Our

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Directors are of the view that this customer has good credit standing, and the trade receivables from it was recoverable. Accordingly, no impairment allowance for doubtful debts in respect thereof was recorded during the Track Record Period.

Average debtors turnover day

Our average debtors turnover days were 101.1 days, 141.3 days and 208.7 days for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively. The average debtors turnover days are calculated as the average of opening and closing trade receivable balances (including bills receivables) of the year/period, divided by revenue for the year/period, multiplied by 365/180 days. The higher turnover days in 2014 as compared with 2013 was primarily attributable to the increase in trade receivables relating to our equipment projects in line with the growth in the revenue derived from equipment projects in 2014, a significant portion of which was recognised towards the end of 2014. As discussed in the aged analysis above, the due date for certain invoices for EPC projects were set at the completion of the entire EPC project, and the invoice settlement for equipment projects is by way of instalments payable upon installation of equipment and machinery and completion and final acceptance of the whole project by the customer. A portion of the trade receivable balances, amounting to RMB58.9 million as at 31 December 2014, were attributable to the aforesaid EPC projects and equipment projects and were not yet due for settlement by our customers pursuant to the payment schedule specified in the relevant contracts, thus leading to the increase in turnover days in 2014.

Our average turnover days for the six months ended 30 June 2015 also went up, because majority of the trade receivables carried forward from the year end of 2014, of which RMB64.9 million were not yet due for settlement as at 30 June 2015, remained outstanding at the end of June 2015, whilst a significant portion of revenue derived from three new equipment projects in 2015 of RMB44.9 million was recognised towards the end of the corresponding period in 2015, which gave rise to an increase in turnover days.

Subsequent settlement

As at 31 October 2015, approximately RMB31,970,000 (equivalent to 45.4%) of the outstanding trade receivables as at 30 June 2015 had been settled. The remaining balance is not yet due for settlement pending achievement of project milestones or completion and final acceptance of the entire project by the customer, majority of which are expected to take place before the end of the second quarter in 2016.

Based on the evaluation of creditworthiness of our customers in accordance with our credit monitoring procedures (details of which are set out in the paragraph headed “Business — Our Pricing Policy and Credit Policy — Credit Policy” in this prospectus), our Directors are of the view that no provision for impairment losses is necessary in respect of trade and bills receivables as there has not been any significant change in credit quality. Furthermore, having considered that (i) our Group has not experienced any material default on its trade receivables by customers during the Track Record Period; (ii) there has been no dispute between our Group and our customers for the outstanding trade and retention monies receivable balances; and (iii) our Group did not envisage any impediment which would materially affect the successful completion of our projects on hand, our Directors consider that the outstanding trade receivables as at 30 June 2015 are fully recoverable.

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Prepayments, deposits and other receivables

Prepayments, deposits and other receivables mainly include payment in advance to suppliers and sub-contractors, prepayment for additions to office building improvements, advances to staff for business purposes, prepaid listing expenses, deposits for project biddings, rental receivables from tenants and VAT receivables.

The following table sets forth our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		As at 30 June
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	2,264	3,704	21,884
Deposits and other receivables	5,542	1,427	1,919
Balance due from Shareholders	—	—	42,684
Total	7,806	5,131	66,487

The decrease in prepayment, deposits and other receivables from RMB7.8 million as at 31 December 2013 to RMB5.1 million as at 31 December 2014, primarily due to (i) the decrease in total bidding deposits of RMB2.9 million resulting from the refund for unsuccessful bidding of a sizeable project during the year; (ii) the reduction in the advances to staff for business purposes of RMB1.5 million; partly offset by (iii) the additional advanced payment for building improvements amounting to RMB0.7 million; and (iv) the increase in advance payment to our equipment suppliers of RMB0.6 million in connection with our equipment projects in 2014.

As at 30 June 2015, we recorded a substantial increase in prepayments, deposits and other receivables of RMB61.4 million from RMB5.1 million as at 31 December 2014 to RMB66.5 million as at 30 June 2015, of which the increase in prepayments of RMB18.2 million is primarily attributable to the advance payments to our equipment suppliers in relation to (i) the new Li Keng wastewater treatment EPC project of RMB9.5 million, (ii) the new Liaoning Anshan equipment project of RMB6.2 million; and (iii) the new Xiqiao equipment project of RMB3.5 million.

The Li Keng EPC project was awarded to us in April 2015 with a contract value of RMB22.0 million. This project employs certain food waste treatment know how developed by us and requires specially designed parts and equipment for the treatment system. We engaged a supplier to manufacture such parts and equipment at a full contract value of RMB19.0 million, of which we paid a deposit of RMB9.5 million. Under the EPC contract entered into in October 2015, the customer will pay us RMB11.0 million when we deliver the parts and equipment no later than February 2016 and the remaining contract balance will be paid to us when the entire project is completed and accepted by the customer, which will coincide with our final payment of RMB9.5 million to the supplier.

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The Liaoning Anshan equipment project was signed in March 2015 with a contract value of RMB48.2 million. We recognised revenue of RMB25.9 million in the first half of 2015 for this project and had a backlog value of RMB22.3 million as at 30 June 2015. The advance payment of RMB6.2 million is mainly related to several purchase orders totaling at a full contract value of RMB18.0 million for the manufacture of a special-purpose built filtration system.

The Xiqiao equipment project was signed in July 2015 with a contract value of RMB16.1 million. Owing to the tight target completion date, namely before the end of 2015, the customer provided us with a written confirmation to request our ordering of the relevant parts and equipment in June 2015 whilst it was processing the contract documentation internally. Therefore, we made advance payments amounting to RMB3.5 million to the relevant equipment suppliers to arrange the provision of necessary parts and equipment with an aggregate full contract value of RMB13.3 million for this project in June 2015 before signing of the contract. The upfront deposit of RMB4.1 million from this customer was received in July 2015 after the contract was signed.

Furthermore, the balance due from Shareholders as at 30 June 2015 represented the aggregate subscription monies receivable from Oceanic Expert, Waterman Global and Great Time of HK\$54.1 million (equivalent to RMB42.7 million) in connection with their subscription of our Shares on 2 June 2015 as part of our Reorganisation. The relevant subscription monies were subsequently settled on 7 July 2015 (please see sub-paragraph (k) under the paragraph headed “History, Reorganisation and Group Structure — Our History, Development and Reorganisation — Reorganisation” for details).

As set out in note 31 of the Accountant’s Report in Appendix I to this prospectus, other receivables included an amount due from a director as at 31 December 2013 and 30 June 2015, which constituted related party transaction of our Group, amounted to RMB1.6 million and RMB6,000, respectively, which primarily refer to cash advances covering business trips expenses. Such amounts are unsecured, interest-free and repayable on demand. As at the Latest Practicable Date, the amount due from a director was fully settled.

Trade payables

Trade payables mainly represent balances due to suppliers for the purchase of materials, appointment of sub-contractors, as well as retention payables to our sub-contractors related to our completed EPC and equipment projects.

Our Group recorded an increase in trade payables from RMB26.4 million as at 31 December 2013 to RMB45.6 million as at 31 December 2014, which was mainly due to the increased material procurement from our suppliers in connection with our equipment projects, as well as the increase in retention monies to be settled by our Group upon the expiry of the warranty period set out in the respective contracts.

As at 30 June 2015, we recorded an increase in trade payables to RMB61.6 million, primarily resulting from higher volume of purchases from our equipment suppliers in line with the growth in our equipment projects in the first half of 2015. As at 31 October 2015, 34.2% of our outstanding trade payables as at 30 June 2015 had been subsequently settled.

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Our average turnover days for our trade payables were 111.1 days, 152.0 days and 210.6 days for the year ended 31 December 2013 and 2014, and for the six months ended 30 June 2015, respectively. The average turnover days for our trade payables was calculated as the average of opening and ending trade payables balances for the year/period, divided by the cost of sales in the respective year/period, multiplied by 365/180 days. The higher turnover days in 2014 as compared to 2013 was attributable to (i) the increased purchases of parts or equipment for our equipment projects towards the end of year 2014 which was in line with the strong growth in our equipment project business; and (ii) the increase in retention monies to be settled upon the expiry of the warranty period. The increase in trade payables turnover days as at 30 June 2015 was primarily attributable to the significant increase in trade payables to our equipment suppliers as discussed above, majority of which was not due for settlement pending achievement of project milestone.

The following table sets forth an aged analysis of our trade payables, based on the transaction date, at the year/period end of the Track Record Period:

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2015
			<i>RMB'000</i>
Within one month	25,058	20,247	24,808
One to three months	258	7,831	7,469
Three months to one year	1,026	11,359	23,354
Over one year	56	6,199	5,970
Total	26,398	45,636	61,601

Credit terms from our sub-contractors and/or suppliers may vary depending on the terms in the relevant contracts. Our suppliers typically grant us a credit period of 30 to 90 days. As a generally accepted practice in our industry in the PRC, we usually reach an understanding with our sub-contractors and suppliers about the settlement schedule, which is often in line with the payment schedule we agree with our customers.

As at 31 December 2013, 31 December 2014 and 30 June 2015, the trade payables over one year constituted 0.2%, 13.6% and 9.7% of our total trade payables, respectively. The trade payable balances aged over one year as at 31 December 2014 and 30 June 2015 were primarily attributable to the balance payable to the equipment suppliers in relation to the flue gas treatment project for a thermal power plant. It is our practice always trying to match the settling of supplier invoices with the receipts of corresponding invoice payments from customers. The equipment project in relation to the flue gas treatment facility allows the customer, after paying 25% upfront deposit and partial progress payment for the delivered equipment, to settle the remaining of the contract value when it has granted the final acceptance of the entire project, which is expected to be available by the end of 2015. As a result, we agreed similar payment terms with the suppliers and therefore, majority of the project costs which were incurred in 2013 and 2014 remained outstanding as at the financial reporting dates of 2014 and 2015.

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In light of the time gap between our receipt of customer's invoice payment (as discussed in the paragraph headed "Trade and Bills Receivables — Aged Analysis" above) and our payment to our suppliers, we would normally have a cashflow deficit equivalent to around 15–20% of the entire project costs in the first 9 to 12 months of the project. We regularly monitor our current and future liquidity requirements to ensure that we maintain sufficient cash resources of working capital throughout the project duration. For further details of our management of working capital and the associated liquidity risk in connection with our projects, please see the paragraph headed "Quantitative and Qualitative Disclosures about Financial Risk — Liquidity Risk" below in this section.

Other payables and accruals

Other payables primarily include accrued salaries and staff related expenses, business tax surcharges and value-added tax payables, accrued listing expenses, and deposits received from suppliers and sub-contractors upon their submission of bidding tender.

The following table sets forth our other payables and accruals at the year/period end of the Track Record Period:

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	4,305	7,702	7,796
Advanced from customers	464	3,860	3,959
Balance due to Shareholders	<u>—</u>	<u>—</u>	<u>43,200</u>
Total	<u>4,769</u>	<u>11,562</u>	<u>54,955</u>

As at 31 December 2013 and 2014, our Group recorded an increase in other payables by RMB3.4 million, which was attributable to (i) the increase in accrued listing expenses; and (ii) increase in VAT payables as a result of the substantial increase in sales towards the end of 2014. The increase of RMB3.4 million in amount advanced from customers as at 31 December 2014 was mainly due to the receipt of advanced progress payment from our customer in connection with an equipment project in Vietnam at the end of 2014.

As at 30 June 2015, we recorded an increase in other payables and accruals of RMB43.4 million from the balance as at 31 December 2014, primarily owing to balance due to the Controlling Shareholders of RMB43.2 million in connection with the acquisition of Lintao EP by Great Water Hong Kong from Mr. Xie, Ms. Gong and Mr. Song as part of our Reorganisation, which was subsequently settled on 10 July 2015 (please see sub-paragraph (j) under the paragraph headed "History, Reorganisation and Group Structure — Our History, Development and Reorganisation — Reorganisation" in this prospectus for details). Our other payables and advanced from customers remained stable as at 30 June 2015 as compared to the end of 2014.

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INDEBTEDNESS

During the Track Record Period, our Group obtained general banking facilities, which increased from RMB30.0 million at the beginning of 2013 to RMB40.0 million as at 30 June 2015, for working capital purpose. These banking facilities have a maturity of 1 year and is secured by our leasehold land, investment properties and buildings. Our borrowings drawn from the banking facilities were denominated principally in RMB, were fixed-rate loans with an average of six months repayment period, with the interests rate of 5.6% and 6.2% per annum during the Track Record Period. The banking facilities had been drawn down and subsequently repaid by our Group during the Track Record Period. Our Group did not have any outstanding borrowings as at 31 December 2013 and 2014. During the six months ended 30 June 2015, we had drawn down from our banking facilities for a sum of RMB15.0 million to fund our working capital needs for our operations and projects. Such borrowing is repayable by February 2016 and with a fixed interest rate of 5.9% per annum.

As at 30 September 2015, being the latest practicable date for the purpose of the indebtedness statement contained in this prospectus, we had general banking facilities amounting to RMB40.0 million. The total borrowing drawn down from our banking facilities as at 30 September 2015 amounted to RMB15.0 million, which corresponded to the amount drawn down during the six months ended 30 June 2015 as mentioned above. Our unutilised credit line as at 30 September 2015 and the Latest Practicable Date were RMB25.0 million and RMB25.0 million, respectively. To the best of our Directors' knowledge and belief, our Group will not have difficulties in obtaining new banking facilities after Listing.

The following table sets forth the carrying value of leasehold land, investment properties and buildings pledged to secure our banking facilities as at 30 June 2015:

	As at 30 June 2015 RMB'000
Net book value	
Prepaid land lease payments	173
Buildings	3,248
Investment properties	<u>20,425</u>
	<u><u>23,846</u></u>

Our Directors confirm that there were no material covenants or any breach in financial covenants relating to our outstanding bank borrowings and no material defaults by our Group in payment of its bank borrowings during the Track Record Period and up to 30 September 2015.

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During the Track Record Period and up to the Latest Practicable Date, except as disclosed above in this section, our Directors confirm that our Group did not have any outstanding loan capital issued or agree to be issued, bank overdrafts, loans, debt securities 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.

Our Directors confirm that up to the Latest Practicable Date, except as disclosed above in this paragraph, there had been no material change in indebtedness and contingent liabilities since 30 June 2015. Our Directors further confirm that as at the Latest Practicable Date, our Group did not have any plans to raise any material debt financing shortly after Listing.

CAPITAL EXPENDITURES

Our capital expenditures comprised additions to property, plant and equipment and land use rights. The purchase of such assets was financed mainly by our internal resources and short-term bank loans. The following table sets forth details of our capital expenditures during the Track Record Period:

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment			
Buildings and its improvements	145	11	—
Electronic and dedicated equipment	19	37	43
Furniture and fixtures	27	—	—
Motor vehicles	415	165	—
Construction in progress	—	20	1,110
Total	606	233	1,153

Our capital expenditures decreased from RMB0.6 million as at 31 December 2013 to RMB0.2 million as at 31 December 2014, mainly due to a decrease in addition of motor vehicles. The increase in our capital expenditures as at 30 June 2015 was primarily attributable to the construction of an additional storey for our office building.

Planned capital expenditures

Our future planned capital expenditures are expected to primarily consist of expenditures related to (i) set up our Hong Kong office; (ii) set up of new offices in the central and north region of the PRC, including the purchase of an office premises in north region of the PRC; and (iii) upgrade and purchase of up-to-date laboratory equipment for our R&D activities. We intend to invest approximately RMB80,000 for the set up of Hong Kong office; approximately RMB11.3 million for purchase of new office premises in north region of the PRC and set up of new offices in central and north region; and RMB6.6 million for purchase of up-to-date laboratory equipment. Such plans will be funded by our internal resources, bank loans and/or proceeds from the Placing. Our eventual capital expenditures may

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differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic condition in the PRC and Vietnam, and factors affecting revenue growth and other factors that may not be able to be controlled by our Group.

CONTRACTUAL OBLIGATIONS

During the Track Record Period, our Group's contractual obligations consisted mainly of the commitments relating to the construction of building, purchase of project equipment as well as operating lease commitments relating to the leasing of the premises and offices.

Commitments

The table sets forth our Group's commitments contracted but not provided for as at the dates indicated:

	As at 31 December		As at 30 June 2015	As at 30 September 2015
	2013	2014	2015	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>
Contracted, but not provided for:				
Purchase of items of equipment for projects	12,930	11,354	45,540	28,447
Construction of building	—	1,440	331	331
	<u>12,930</u>	<u>12,794</u>	<u>45,871</u>	<u>28,778</u>

Operating Lease Commitments

(a) As lessor

During the Track Record Period, we leased certain of our premises under non-cancellable operating lease arrangements, with leases negotiated for terms ranging from three to ten years. Our future minimum lease receivables from the lessees in respect of our premises under non-cancellable operating leases as at the dates indicated were as follows:

	As at 31 December		As at 30 June 2015	As at 30 September 2015
	2013	2014	2015	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>
Within one year	819	2,172	2,179	2,175
In the second to fifth years (inclusive)	557	7,386	7,229	7,220
After five years	—	7,201	6,557	6,235
	<u>1,376</u>	<u>16,759</u>	<u>15,965</u>	<u>15,630</u>

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(b) *As lessee*

Our Group leases certain of our office property in Vietnam under operating lease arrangement. Lease for the property is negotiated for a term of one year.

As at the end of each of the Track Record Period, our Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	As at 31 December		As at 30 June	As at 30 September
	2013	2014	2015	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>
Within one year	—	—	35	20

Contingent Liabilities

At the end of each of the Track Record Period, our Group had no significant contingent liabilities.

Off-balance Sheet Commitments and Arrangements

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties.

MAJOR FINANCIAL RATIOS ANALYSIS

	As at 31 December		As at 30 June
	2013	2014	2015
Current ratio ⁽¹⁾ (times)	1.4	1.7	1.3
Quick ratio ⁽²⁾ (times)	1.3	1.6	1.3
Gearing ratio ⁽³⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	21.7%
Net debt to equity ratio ⁽⁵⁾	Net cash ⁽⁶⁾	Net cash ⁽⁶⁾	Net cash ⁽⁶⁾
	Year ended 31 December		Six months ended
	2013	2014	30 June 2015
Return on equity ⁽⁷⁾ (%)	23.2%	35.5%	17.0% ⁽¹⁰⁾
Return on assets ⁽⁸⁾ (%)	11.4%	17.9%	5.7% ⁽¹⁰⁾
Interest coverage ⁽⁹⁾ (times)	60.8	167.3	48.7

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Notes:

- (1) Current ratio is calculated based on our current assets divided by our current liabilities as at the end of the year/period.
- (2) Quick ratio is calculated based on our current assets less inventories divided by our current liabilities as at the end of the year/period.
- (3) Gearing ratio is calculated based on our total interest-bearing borrowings divided by our total equity as at the end of the year/period.
- (4) Not applicable as there is no interest-bearing borrowings as at the end of the year/period.
- (5) Net debt to equity ratio is calculated based on net debt divided by our total equity as at the end of the year/period.
- (6) Net cash refers to the amount of cash and bank balances exceeds total borrowings as at the end of the year/period.
- (7) Return on equity is calculated based on profit for the year/period divided by our total equity as at the end of the year/period.
- (8) Return on assets is calculated based on profit for the year/period divided by our total assets as at the end of the year/period.
- (9) Interest coverage ratio is calculated based on profit before interest and tax for the year/period divided by interest expenses for the same year/period.
- (10) For the six months ended 30 June 2015, return on equity and return on assets are calculated on an annualised basis.

Current Ratio and Quick Ratio

Our current ratio increased from 1.4 times in 2013 to 1.7 times in 2014 and decreased to 1.3 times in 2015, whilst our quick ratios increased from 1.3 times in 2013 to 1.6 times in 2014 and decreased to 1.3 times in 2015. In light of the inventory balance of our Group is relatively insignificant, the increase in current ratio and quick ratio in 2014 was primarily due to the substantial increase in our trade and bills receivables, which was in line with our continuous business growth, especially for our equipment projects. Meanwhile, the decline in current and quick ratio in 2015 was mainly due to the increase in bank borrowings drawn down from our banking facilities to fund our project needs.

Gearing Ratio

The Group did not have any interest-bearing borrowings as at 31 December 2013 and 2014. Accordingly, the gearing ratio was not applicable for those two years. Our gearing ratio increased to 21.7% as at 30 June 2015 mainly due to the increase in bank borrowings as mentioned above.

Net Debt to Equity Ratio

As at 31 December 2013 and 2014 and 30 June 2015, we had net cash positions.

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Return on Equity

Our return on equity increased from 23.2% for the year ended 31 December 2013 to 35.5% for the year ended 31 December 2014. Such improvement was primarily attributable to the rate of increase in our profit was faster than the rate of increase in our total equity during 2014. Our return on equity was 17.0% (on an annualised basis) for the six months ended 30 June 2015. The decrease in the return on equity was mainly due to the increase in our equity resulting from the net profits generated in the prior year.

Return on Assets

Our return on total assets slightly increased from 11.4% for the year ended 31 December 2013 to 17.9% for the year ended 31 December 2014, primarily resulting from an increment of our profit being at a faster rate than our total assets. As at 31 December 2013, our total assets amounted to RMB72.4 million, which subsequently increased to RMB127.2 million as at 31 December 2014. Our return on assets was 5.7% (on an annualised basis) for the six months ended 30 June 2014. The decrease in the return on assets during the period was primarily due to the substantial increase in our total assets to RMB206.4 million as at 30 June 2015 from RMB127.2 million as at 31 December 2014.

Interest Coverage Ratio

The finance cost mainly comprised of interest on short-term bank loans during the Track Record Period. Our interest coverage ratio increased from 60.8 times for the year ended 31 December 2013 to 167.3 times for the year ended 31 December 2014, primarily due to the fact that our finance cost was mostly kept at a similar level for both years, whilst we recorded a significant increase in our profit as a result of strong growth of our business operations for the year ended 31 December 2014. However, our interest coverage ratio decreased to 48.7 times for the six months ended 30 June 2015 as a result of the increase in bank borrowings during the six months ended 30 June 2015 as discussed in paragraph headed “Indebtedness” above in this section.

LISTING EXPENSES

Based on the Placing Price of HK\$0.96 per Placing Share, the estimated total listing expenses in relation to the Listing are approximately HK\$23.3 million, of which approximately: (1) HK\$7.0 million is directly attributable to the issue of Placing Shares in the Listing and to be accounted for as a deduction from equity upon Listing; and (2) HK\$16.3 million is chargeable as administrative expenses to our profit and loss accounts for the year ended 31 December 2014 and the year ending 31 December 2015. Out of this amount, approximately HK\$1.8 million and HK\$6.1 million had been charged to our profit and loss account for the year ended 31 December 2014 and the six months ended 30 June 2015 respectively, and a further amount of approximately HK\$8.4 million is expected to be charged to our profit and loss account as administrative expenses for the six months ending 31 December 2015. The actual amounts to be recognised to the profit and loss of our Group or to be capitalised are subject to adjustments based on audit and changes in variables and assumptions. **Prospective investors should note that our financial results for the year ending 31 December 2015 will be affected by the estimated non-recurring listing expenses described above, and may or may not be comparable to the financial performance of our Group in the past.**

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WORKING CAPITAL SUFFICIENCY

Our Directors confirm that after due and careful enquiry and taking into account the financial resources presently available to us, including our cash flow from operating activities, existing bank facilities and estimated net proceeds from the Placing, our Group has sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions as set out in note 31 of the Accountants' Report as set out in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and such terms were no less favourable to us than terms available from Independent Third Parties which are fair and reasonable and in the interest of the Shareholders as a whole.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISK

Our exposure to foreign currency risk, credit risk and liquidity risks arises in the normal course of our business. Our management continuously manages and monitors our exposures to such risks, and our overall risk management programme seeks to minimise the potential adverse effects on our financial performance arising out of our exposure to these risks.

Foreign currency risk

The monetary assets and transactions of certain subsidiaries of our Group are denominated in foreign currencies, which exposes our Group to foreign currency risk. Our Group currently has no particular hedging vehicles to hedge our exposure to foreign exchange risk. The carrying amount of monetary assets and liabilities denominated in HKD, VND and USD as at each of the year/period end during the Track Record Period is presented as follows:

	As at 30 June 2015		
	HKD	VND	USD
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets in foreign currency			
Prepayment, deposits and other receivables	42,684	339	—
Cash and cash equivalents	402	145	560
Liabilities in foreign currency			
Trade payables	—	381	—
Other payables and accruals	—	173	—
Tax payable	—	125	—

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	As at 31 December 2014		
	HKD	VND	USD
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets in foreign currency			
Prepayment, deposits and other receivables	—	184	—
Cash and cash equivalents	4,057	547	994
Liabilities in foreign currency			
Trade payables	—	1,634	—
Other payables and accruals	—	202	—

	As at 31 December 2013		
	HKD	VND	USD
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets in foreign currency			
Prepayment, deposits and other receivables	—	1	—
Cash and cash equivalents	—	3	—
Liabilities in foreign currency			
Other payables and accruals	—	39	—

The Company will have sufficient foreign exchange to meet its foreign exchange liabilities as they become due.

For the details of the sensitivity analysis in relation to foreign currency risk, please see the paragraph “Foreign Currency Risk” in note 34 to the Accountants’ Report set out in Appendix I.

Credit risk

The credit risk of our Group’s other financial assets, which comprise trade and bills receivable, cash and bank balances, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since our Group conducts business only with recognised and creditworthy third parties, there is no requirement for collateral. The Group had certain concentrations of credit risk as 93%, 65% and 41% of our Group’s trade and bills receivables were due from our Group’s five largest customers for each of the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, respectively.

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In order to minimise our credit risk, our receivable balances are monitored on an ongoing basis and our Group's exposure to bad debts is not significant.

Liquidity risk

Our EPC projects usually run for an average duration of 18 months, whilst our equipment projects usually run for an average duration of 16 months. For EPC projects, the amount of payments to sub-contractors and suppliers for settling project costs usually exceeds the amount of receipts of project billings from our customer until the project reaches the final stage where the treatment facility has been fully tested and accepted by the customer. For our equipment projects, we usually try to align the billing schedule and amount receivable from our customers with the payment terms granted by our suppliers so as to minimise the amount of cash flow deficit. Please see note 34 to the Accountants' Report in Appendix I to this prospectus for the maturity profile of our Group's financial liabilities as at the end of the Track Record Period.

In light of such time gap between our receipt of customer's invoice payment and our payment to our suppliers, we would normally have a cashflow deficit equivalent to around 15–20% of the entire project costs in the first 9 to 12 months of the projects. It is important that we budget for all project expenditures and the timing of cash flows accurately so as to ensure we have sufficient working capital on hand throughout the project duration. During the Track Record Period, our Group financed our operations and current liabilities through internally generated cash flow and short-term bank loans. As at the Latest Practicable Date, we have arranged a revolving banking facilities of RMB40 million and would only draw down from the banking facilities as and when required to fund our working capital needs.

Our Group's policies are to regularly monitor the current and expected liquidity requirements, and to ensure that it maintains sufficient reserve of cash and available banking facilities to meet its liquidity requirements in the short and longer terms. Specifically, as part of our internal control measures, our financial controller prepares a 90-day rolling cashflow forecast for our Directors' review on a bi-weekly basis to ensure we have sufficient working capital and banking facilities to take on new projects. Taking into consideration of (i) our cash and bank balances of RMB3.4 million, RMB17.5 million, and RMB19.1 million as at 31 December 2013 and 2014 and 30 June 2015, respectively; and (ii) the available revolving banking facilities mentioned above, we have maintained sufficient working capital to meet the liquidity requirement for our projects during the Track Record Period.

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DIVIDEND POLICY

We did not declare any dividends for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015.

Under the Companies Law, dividends may be paid out of the profits of our Company or out of sums standing to the credit of our share premium account. Under our Articles, declaration of dividends is subject to the Shareholders' approval at our general meeting, but no dividend shall exceed the amount recommended by our Directors. In addition, our Directors may also pay interim dividends without Shareholders' approval as appear to our Directors to be justified by the financial conditions and the profits of the Company. We currently do not have a formal dividend policy or a fixed dividend distribution ratio. The declaration of dividend is subject to our discretion, and the amount of dividend actually declared and paid is dependent upon our results of operations (mainly derived from the operations of Guangzhou Great Water in the PRC and the distribution of its earnings to our Company in the form of dividends), financial condition, operating and capital requirements, the amount of distributable profits, reserves available for distribution based on HKFRSs, our Memorandum of Association and Articles, the Companies Law, applicable laws and regulations and other factors which our Directors deem relevant. Currently, we have no plan to distribute any dividends from our undistributed profits earned up to 30 June 2015 in the foreseeable future.

Any dividends declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividends in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable. Any distributable profits that are not distributed in any given year may be retained and be made available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available for reinvestment in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 25 March 2015 and has not carried out any business since the date of our incorporation save for the transactions related to the Reorganisation. Accordingly, there was no distributable reserve as at 30 June 2015.

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UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following information relating to our unaudited pro forma adjusted combined net tangible assets is for illustration purposes only, and is set out below to illustrate the effect of the Placing as if it had been taken place on 30 June 2015.

Because the following data is for illustration purposes, it may not give a true picture of our net tangible assets following the Placing. It is based on the combined net tangible assets of our Group attributable to owners of our Company as at 30 June 2015 as shown in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. This unaudited pro forma statement of adjusted combined net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this prospectus.

	Audited		Unaudited pro	Unaudited pro
	combined net		forma adjusted	forma adjusted
	tangible assets of		combined net	combined net
	our Group		tangible assets	tangible assets of
	attributable to		of our Group	attributable to
	the owners of		owners of our	owners of our
	our Company as	Estimated net	Company⁽³⁾	Company per
	at 30 June	proceeds from	Share⁽⁴⁾	Share⁽⁴⁾
	2015⁽¹⁾	the Placing⁽²⁾	HK\$'000	HK\$
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on the Placing Price of HK\$0.96 per Placing Share	87,799	56,600	144,399	0.48

Notes:

- (1) The combined net tangible assets of our Group attributable to owners of our Company as at 30 June 2015 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined equity attributable to owners of the Company as at 30 June 2015 of RMB69,239,000 (equivalent to HK\$87,799,000). For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in RMB are converted into HK\$ at the rate of HK\$1.00 to RMB0.78861 prevailing on 30 June 2015.
- (2) The estimated net proceeds from the issue of the Shares pursuant to the Placing are based on 75,000,000 Shares at the Placing Price of HK\$0.96 per Placing Share, respectively, after deduction of the underwriting commissions and fees and other related fees (excluding approximately HK\$7.9 million listing expenses which has been accounted for prior to 30 June 2015) paid or payable by our Company. It does not take into account any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase Shares referred to in the section headed "Share Capital — General Mandate to Issue Shares" or the section headed "Share Capital — General Mandate to Repurchase Shares" in this prospectus, as the case may be.
- (3) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company does not take into account the effect of any trading result or other transaction of our Group entered into subsequent to 30 June 2015.

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- (4) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share is arrived at on the basis that 300,000,000 Shares were in issue assuming that the Placing had been completed on 30 June 2015. It does not take into account any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase Shares referred to in the section headed “Share Capital — General Mandate to Issue Shares” or the section headed “Share Capital — General Mandate to Repurchase Shares” in this prospectus, as the case may be.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, including in “Summary — Recent developments subsequent to the Track Record Period”, our Directors confirm that, after performing sufficient due diligence work which they consider appropriate and after due and careful consideration, that up to the Latest Practicable Date, there had been no material adverse change in our financial or trading position, indebtedness, contingent liabilities, guarantees or prospect since 30 June 2015, being the date to which our latest audited financial information was prepared and there had been no event since 30 June 2015 up to the date of this prospectus which would materially affect the information shown in the Accountants’ Report.

PROPERTY INTERESTS AND PROPERTY VALUATION

The Group’s industrial building is situated in Guangzhou, which consists of office purpose and lease to independent third parties for rental purpose. The portion of the office purpose of the Group is stated at cost less accumulated depreciation as the buildings in property, plant and equipment. The remaining portion is stated in fair value as investment properties subsequent to initial recognition. For the purpose of the Listing, Roma Appraisals Limited, has valued the property interests of our Group at RMB32.0 million (including portions of the buildings and investment properties) as at 31 August 2015. Particulars of the property interests of our Group are set out in Appendix III to this prospectus.

The table below shows the reconciliation of the investment properties of the Group from the audited financial statements as at 30 June 2015 to the valuation of the investment properties of the Group as at 31 August 2015:

	<i>RMB’000</i>
Net book value of the investment properties as at 30 June 2015 per Accountants’ Report set out in Appendix I to this prospectus ⁽¹⁾	20,425
Movements for two months ended 31 August 2015	—
Net book value of the investment properties as at 31 August 2015	20,425
Valuation surplus	—
Valuation of the investment properties as at 31 August 2015 per Property Valuation Report set out in Appendix III to this prospectus ⁽¹⁾	<u>20,425</u>

FINANCIAL INFORMATION

Note:

1. The valuation portions of the investment properties is calculated based on the gross floor area of the leased area of the investment properties of approximately 4,695 sq.m. divided by the total gross floor area of our Group's property of 7,355.82 sq.m., and multiplied by the market value as at 30 June 2015 and 31 August 2015 both at RMB32.0 million. Further details on the valuation as at 31 August 2015, please refer to the Appendix III to this prospectus.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Save as disclosed in this prospectus, our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

The principal business objective of our Group is to further strengthen our position in the wastewater treatment engineering services in the PRC in order to achieve sustainable growth in our business and create long term shareholder's value. For details of our business strategies, please refer to the section headed "Business — Our Business Objectives and Strategies" in this prospectus.

IMPLEMENTATION PLANS

We will endeavour to achieve the following milestone events during the period from the Latest Practicable Date up to and including 31 December 2017. Investors should note that the milestones and their respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed "Bases and key assumptions" of this section below.

Set forth below are the implementation plans to carry out our business strategies from the Latest Practicable Date to 31 December 2017.

From the Latest Practicable Date to 31 December 2015

Business strategies	Implementation activities	Sources of funding
Strengthen our market position	— Identify new office locations in central and north regions of the PRC	Listing proceeds of approximately HK\$0.1 million
Expand our soil remediation project business	— Participate the national and regional industry events to identify business opportunities and invite our potential customers to visit our completed projects	Listing proceeds of approximately HK\$0.2 million
Enhance our R&D capabilities	— Identify equipment and machinery for our R&D laboratory	Our internal resources
Upgrade our qualification in construction and design engineering	— Initial planning	Our internal resources
Fund the working capital for EPC projects	— Fund the cashflow deficit for projects in our pipeline, including a wastewater EPC project to be entered into with a brand new PRC textile manufacturer in Vietnam	Listing proceeds of approximately HK\$12.0 million

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

For the six months ending 30 June 2016

Business strategies	Implementation activities	Sources of funding
Strengthen our market position	— Open a new office in central region of the PRC	Listing proceeds of approximately HK\$0.5 million
	— Participate the national and regional industry events to identify business opportunities and invite potential customers to visit our completed projects	Listing proceeds of approximately HK\$0.2 million
Expand our soil remediation project business	— Participate industry events to identify and explore business opportunities and invite potential customers to visit our completed projects	Listing proceeds of approximately HK\$0.6 million
Enhance our R&D capabilities	— Purchase of laboratory equipment and testing materials for performing pilot runs: ozone generation equipment, air compressors, air filters, metres and pumps and thermo reactor	Listing proceeds of approximately HK\$5.6 million
Upgrade our qualification in construction and design engineering	— Recruit additional qualified professionals and provide relevant training/course to our existing engineering and technical staff	Listing proceeds of approximately HK\$0.5 million
Fund the working capital for EPC projects	— Fund the cashflow deficit for projects in our pipeline, including an EPC project to be entered into with a textile manufacturer to build an industrial wastewater treatment facility in Dongguan	Listing proceeds of approximately HK\$5.6 million

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

For the six months ending 31 December 2016

Business strategies	Implementation activities	Sources of funding
Strengthen our market position	— Purchase an office premises in north region of the PRC	Listing proceeds of approximately HK\$10.5 million
	— Recruit marketing and administrative staff	Listing proceeds of approximately HK\$0.2 million
	— Invite our potential customer to visit our completed projects	Listing proceeds of approximately HK\$0.3 million
Expand our soil remediation project business	— Participate industry events to identify business opportunities and invite potential customers to visit our completed projects	Listing proceeds of approximately HK\$0.6 million
Enhance our R&D capabilities	— Purchase of laboratory equipment and testing materials for performing pilot runs: heat exchanger, vacuum pumps, and filtration system	Listing proceeds of approximately HK\$1.9 million
Upgrade our qualification in construction and design engineering	— Recruit additional qualified professionals and provide relevant training/course to our existing engineering and technical staff	Listing proceeds of approximately HK\$0.5 million
Fund the working capital for EPC projects	— —	—

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

For the six months ending 30 June 2017

Business strategies	Implementation activities	Sources of funding
Strengthen our market position	— Participate in national and regional industry events to identify business opportunities and invite our potential customer to visit our completed projects	Listing proceeds of approximately HK\$0.4 million
	— Conduct marketing activities in central and north regions of the PRC	Listing proceeds of approximately HK\$0.5 million
	— Recruit marketing and administrative staff	Listing proceeds of approximately HK\$0.4 million
Expand our soil remediation project business	— Participate industry events to identify business opportunities and invite our potential customer to visits our completed projects	Listing proceeds of approximately HK\$0.6 million
Enhance our R&D capabilities	— Purchase of laboratory equipment and testing materials for performing pilot runs: high pressure pumps, centralised control system, various electronic testing equipment	Listing proceeds of approximately HK\$2.7 million
Upgrade our qualification in construction and design engineering	— Recruit additional qualified professionals and provide relevant training/course to our existing engineering and technical staff	Listing proceeds of approximately HK\$0.5 million
Fund the working capital for EPC projects	— —	—

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

For the six months ending 31 December 2017

Business strategies	Implementation activities	Sources of funding
Strengthen our market position	— Participate in national and regional industry events to identify business opportunities and invite potential customers to visit our completed projects	Listing proceeds of approximately HK\$0.3 million
	— Conduct marketing activities, and visit potential clients to explore new business opportunities	Listing proceeds of approximately HK\$0.5 million
	— Recruit marketing and administrative staff	Listing proceeds of approximately HK\$0.5 million
Expand our soil remediation project business	— Participate in industry events to identify business opportunities and invite potential customers to visit our completed projects	Listing proceeds of approximately HK\$0.6 million
Enhance our R&D capabilities	— Purchase of laboratory equipment and testing materials for performing pilot runs: filter press tools, and various filters and mixers	Listing proceeds of approximately HK\$1.9 million
Upgrade our qualification in construction and design engineering	— Recruit additional qualified professionals and provide relevant training/course to our existing engineering and technical staff	Listing proceeds of approximately HK\$0.5 million
Fund the working capital for EPC projects	— —	—

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

BASES AND KEY ASSUMPTIONS

We have adopted the following principal assumptions in the preparation of the future plans up to 31 December 2017:

General assumptions:

- there will be no material adverse change in the existing political, legal, fiscal, market or economic conditions in the PRC; and
- there will be no material change in the bases or rates of taxation and duties in the PRC.

Specific assumptions:

- we will have sufficient financial resources to meet the planned capital and business development requirements during the period to which the business objectives relate;
- the Placing will be completed in accordance with and as described in the section headed “Structure and Conditions of the Placing” in this prospectus;
- our Directors and key senior management will continue to be involved in the development of our existing and future development and we will be able to retain our key management personnel;
- we will be able to recruit additional key management personnel and staff when required;
- we will be able to complete existing and undertake new projects;
- there will be no change in the funding requirement for each of the business strategies described in this prospectus from the amount as estimated by our Directors;
- we will not be materially and adversely affected by the risk factors as set out in the section headed “Risk Factors” in this prospectus; and
- we will be able to continue our operations in substantially the same manner as we have been operating during the Track Record Period and we will also be able to carry out our implementation plans without disruptions.

These bases and assumptions are inherently subject to many uncertainties, variables, and unpredictable factors, in particular the risk factors set forth in the section headed “Risk Factors” in this prospectus. There can be no assurance that our plans will materialise in accordance with the expected time frame or that the objective of our Group will be accomplished at all.

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

REASONS FOR THE PLACING AND USE OF PROCEEDS

The net proceeds from the Placing are estimated to be approximately HK\$48.7 million, based on the Placing Price of HK\$0.96 per Share, after deducting the underwriting commission and total listing expenses in an amount of approximately HK\$23.3 million paid and payable by our Company from the gross proceeds from the Placing.

We intend to apply the aforesaid net proceeds in the following manner:

- (a) approximately 29.6% of the total estimated net proceeds, or approximately HK\$14.4 million, will be used to strengthen our market position;
- (b) approximately 5.3% of the total estimated net proceeds, or approximately HK\$2.6 million, will be used to expand our soil remediation project business;
- (c) approximately 24.9% of the total estimated net proceeds, or approximately HK\$12.1 million, will be used to enhance our R&D capabilities;
- (d) approximately 4.1% of the total estimated net proceeds, or approximately HK\$2.0 million, will be used to upgrade our qualification in construction and design engineering; and
- (e) approximately 36.1% of the total estimated net proceeds, or approximately HK\$17.6 million, will be used to fund the working capital for EPC projects.

STATEMENT OF BUSINESS OBJECTIVES AND USE OF PROCEEDS

For the period from the Latest Practicable Date to 31 December 2017, our Group's net proceeds from the Placing will be used as follows:

	From the Latest Practicable Date to		Six months ending			Total
	31 December 2015	30 June 2016	31 December 2016	30 June 2017	31 December 2017	
	<i>HK\$ million</i>					
Strengthening our market position	0.1	0.7	11.0	1.3	1.3	14.4
Expand our soil remediation project business	0.2	0.6	0.6	0.6	0.6	2.6
Enhance our R&D capabilities	—	5.6	1.9	2.7	1.9	12.1
Upgrade our qualification in construction and design engineering	—	0.5	0.5	0.5	0.5	2.0
Fund the working capital for our EPC projects	<u>12.0</u>	<u>5.6</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17.6</u>
	<u><u>12.3</u></u>	<u><u>13.0</u></u>	<u><u>14.0</u></u>	<u><u>5.1</u></u>	<u><u>4.3</u></u>	<u><u>48.7</u></u>

Our Directors consider that the net proceeds from the Placing of approximately HK\$48.7 million together with our internal resources will be sufficient to finance our implementation plan as discussed in this section.

The possible use of proceeds outlined above may change in light of our evolving business needs and conditions and management requirements. In the event of any material modification to the use of proceeds as described above, we will issue an announcement and make disclosure in our annual report for the relevant year as required by the Stock Exchange.

To the extent that the net proceeds from the Placing are not immediately required for the above purpose, it is the present intention of our Directors that such proceeds will be placed on short-term interest bearing deposits with authorised financial institutions.

UNDERWRITING

UNDERWRITERS

Shenwan Hongyuan Capital (H.K.) Limited

China Times Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company will conditionally place the Placing Shares with institutional, professional and other investors in Hong Kong at the Placing Price subject to the terms and conditions in the Underwriting Agreement and this prospectus.

Subject to, among other conditions, the Listing Department granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions as set out in the Underwriting Agreement being satisfied or waived on or before the dates and times as specified therein or such other dates as the Sole Sponsor (for itself and on behalf of the Underwriters) may agree but in any event not later than the 30th day after the date of this prospectus, the Underwriters have agreed to subscribe for or to procure subscribers for their respective applicable proportions of the Placing Shares on the terms and conditions under the Underwriting Agreement and in this prospectus.

Grounds for termination

The Sole Sponsor (for itself and on behalf of the Underwriters) shall have the absolute right which is exercisable by the Sole Sponsor (for itself and on behalf of the Underwriters), upon giving notice in writing to our Company (for itself and on behalf of our executive Directors and our Controlling Shareholders), to terminate the arrangements set out in the Underwriting Agreement with immediate effect if any of the following events occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on Wednesday, 9 December 2015):

- (a) it has come to the notice of the Sole Sponsor that:
 - (i) any statement contained in this prospectus or other documents issued or used by or on behalf of our Company or information provided to the Sole Sponsor in connection with the Placing (the “**Relevant Documents**”), considered by the Sole Sponsor in its/their absolute opinion was, when it was issued, or has become, or been discovered to be untrue, inaccurate, incorrect or misleading in any material respect;
 - (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sole Sponsor in its/their absolute opinion to be material in the context of the Placing;

UNDERWRITING

- (iii) any breach of any of the obligations imposed upon any party to the Underwriting Agreement considered by the Sole Sponsor in its/their absolute opinion to be material in the context of the Placing (other than upon any of the Underwriters);
 - (iv) either (1) there has been a breach of any of the warranties or provisions of the Underwriting Agreement by any of our Company, our executive Directors or our Controlling Shareholders (collectively, the “**Warrantors**”) or (2) any matter or event showing or rendering any of the warranties thereto, as applicable, in the absolute opinion of the Sole Sponsor, to be untrue, incorrect or misleading in any material respect when given or repeated;
 - (v) any event, act or omission which gives or is likely to give rise to any liability of a material nature of any of the Warrantors pursuant to the indemnity provisions under the Underwriting Agreement; or
 - (vi) any event, series of events, matter or circumstance occurs or arises on or after the date of this prospectus and prior to 8:00 a.m. on the Listing Date, would have rendered any warranties in the Underwriting Agreement, in the absolute opinion of the Sole Sponsor, untrue, incorrect, inaccurate or misleading in any respect;
- (b) there shall develop, occur, happen, exist or come into effect:
- (i) any event, or series of events in the nature of force majeure, including, without limitation, acts of government, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, riots, public disorder, economic sanctions, outbreaks of diseases or epidemics in Hong Kong;
 - (ii) any change or development involving a change or development, or any event or series of events, matters or circumstances likely to result in or represent any change or development, in the local, national, regional, international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit, market or exchange control conditions or any monetary or trading settlement system or matters and/or disaster (including without limitation a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States, or a material fluctuation in the exchange rate of the Hong Kong dollar);
 - (iii) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting the PRC, Hong Kong, Vietnam, the Cayman Islands or BVI (the “**Relevant Jurisdictions**”);
 - (iv) the imposition of economic sanctions on any of the Relevant Jurisdictions;

UNDERWRITING

- (v) a change or development involving a prospective change in any taxation or exchange control (or the implementation of any exchange control) in any of the Relevant Jurisdictions;
- (vi) any litigation or claim of importance instigated against any member of our Group or any Director;
- (vii) a Director being charged with an indictable offence or prohibited by operation of law or regulation or otherwise disqualified from taking part in the management of a company;
- (viii) a valid demand by any creditor for repayment or payment of any material indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity;
- (ix) any material loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person);
- (x) any contravention by any member of our Group or any Director of the GEM Listing Rules or any applicable laws;
- (xi) a prohibition on the Company for whatever reason from allotting the Placing Shares pursuant to the terms of the Placing;
- (xii) non-compliance of this prospectus (and/or any other documents used in connection with the subscription of the Placing Shares) or any aspect of the Placing with the GEM Listing Rules or any other applicable laws by any of the Directors or the Warrantors;
- (xiii) the issue or requirement to issue by the Company of a supplement or amendment to any of the Relevant Documents (and/or any other documents used in connection with the subscription of the Placing Shares);
- (xiv) any change in the business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of our Group taken as a whole;
- (xv) a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or any analogous matter thereto occurs in respect of any member of our Group;
- (xvi) a disruption in or any general moratorium on commercial banking activities or foreign exchange trading or securities settlement, or payment or clearance services or procedures in or affecting any of the Relevant Jurisdictions;
- (xvii) any change or development in the conditions of local, national or international equity securities or other financial markets; or

UNDERWRITING

(xviii) the imposition of any moratorium, suspension or restriction on trading in shares or securities generally on or by the Stock Exchange or by any of the other exchanges or by such system or by order of any regulatory or governmental authority,

which in each case or in aggregate in the sole and absolute opinion of the Sole Sponsor (for itself and on behalf of the Underwriters):

- (i) is or will be materially adverse to or may prejudicially affect the business, financial, trading or other condition or prospects of our Group (as a whole) or any member of our Group;
- (ii) has or will have a material adverse effect on the success of the Placing or the level of interest under the Placing;
- (iii) makes or may make it inadvisable, inexpedient or impracticable to proceed with the Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by any of the Relevant Documents; or
- (iv) has or would have the effect of making any part of the Underwriting Agreement (including undertaking) incapable of implementation or performance in accordance with its terms and in the manner contemplated by any of the Relevant Documents and the Underwriting Agreement or which prevents the processing of applications and/or payments pursuant to the Placing or pursuant to the underwriting thereof.

Without prejudice to the above, if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, the following comes to the notice of the Sole Sponsor:

- (a) any matter or event showing any of the warranties contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or any breach of any of the warranties contained in the Underwriting Agreement or any other provision of the Underwriting Agreement by any party thereto (other than the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager), which is considered, in the sole and absolute opinion of the Sole Sponsor (for itself and on behalf of the Underwriters), to be material in the context of the Placing; or
- (b) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus and the placing letter, would have constituted a material omission in the sole and absolute opinion of the Sole Sponsor (for itself and on behalf of the Underwriters) in the context of the Placing; or
- (c) any statement contained in this prospectus and the placing letter reasonably considered to be material by the Sole Sponsor which is discovered to be or becomes untrue, incorrect or misleading in any respect and in the sole and absolute opinion of the Sole Sponsor (for itself and on behalf of the Underwriters) to be material in the context of the Placing; or
- (d) any event, act or omission which gives rise to or is likely to give rise to any material liability of the Warrantors pursuant to the indemnities contained in the Underwriting Agreement,

UNDERWRITING

the Sole Sponsor (for itself and on behalf of the Underwriters) shall be entitled (but not bound) by notice in writing to our Company (for itself and on behalf of our executive Directors and our Controlling Shareholders), to terminate the Underwriting Agreement on or prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

Commission and expenses

In connection with the Placing, the Underwriters will receive an underwriting commission of 2.5% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any sub-underwriting commissions.

In connection with the Listing, the Sole Sponsor will receive a sponsorship fee of HK\$4.0 million and will be reimbursed for its expenses.

In connection with the Listing and the Placing, the total expenses (including underwriting commission, brokerage fee, the Stock Exchange trading fee, the SFC transaction levy, the sponsorship and documentation fee, the listing fee, legal and other professional fees, printing cost and other expenses relating to the Placing), which shall be borne by our Company are currently estimated to be approximately HK\$23.3 million in aggregate, based on the Placing Price of HK\$0.96 per Placing Share.

Our Company has agreed to indemnify the Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Underwriting Agreement and any breach by our Company pursuant to the terms of the Underwriting Agreement.

Underwriters' interests in our Company

The Sole Sponsor will be appointed as the compliance adviser of our Company with effect from the Listing Date until the despatch of the audited consolidated financial results for the second full financial year after the Listing Date, and our Company will pay to the Sole Sponsor an agreed fee for its provision of services as required under the GEM Listing Rules.

Save for the interests and obligations under the Underwriting Agreement and the advisory fee payable to the Sole Sponsor in respect of the Placing, none of the Sole Sponsor or the Underwriters or their respective directors, employees or close associates is interested beneficially or non-beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

Independence of the Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting.

UNDERWRITING

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members must not, in connection with the distribution of the Placing Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Placing Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Placing Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

UNDERWRITING

Undertakings

Undertakings to the Stock Exchange pursuant to the GEM Listing Rules

Pursuant to Rule 13.16A of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange that he/it shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or other securities of the Company) in respect of which he/she/it is shown by this prospectus to be the beneficial owner (unless pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan and after having given notice of such pledge or charge to the Company); or
- (b) in the period of six months commencing on the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above (unless pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan and after having given notice of such pledge or charge to the Company) if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances the Controlling Shareholders would, either individually or taken together with the others of them, cease to be a Controlling Shareholder.

and in the event that when entering into any transaction specified in sub-paragraph (a) above during the period referred to in sub-paragraph (b) above (whether or not such transactions will be completed in the said period), each of the Controlling Shareholders will take all reasonable steps to ensure that any such transaction, agreement, or as the case may be, announcement will not create a disorderly or false market in the Shares.

Further, each of the Controlling Shareholders has undertaken to the Stock Exchange that he/she/it shall comply with the following requirements:

- (c) in the event that they pledge or charge any direct or indirect interest in any Shares or other securities of the Company under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in sub-paragraphs (a) and (b) above, they must inform the Company and the Sole Sponsor immediately in writing disclosing all details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and

UNDERWRITING

- (d) having pledged or charged any interest in the Shares or other securities of the Company under sub-paragraph (c) above, they must inform the Company and the Sole Sponsor immediately in writing, in the event that they become aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares or other securities of the Company so affected.

Undertakings pursuant to the Underwriting Agreement

Under the Underwriting Agreement,

- (a) (i) each of our Controlling Shareholders has jointly and severally undertakes to and covenants with our Company, the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager:
 - (a) he/she/it shall comply with all the applicable restrictions and requirements under the GEM Listing Rules on the disposal by him/her/it or by any registered holder on his/her/its behalf, of any Shares or other securities of our Company in respect of which he/she/it is shown in this prospectus to be the beneficial owner (directly or indirectly);
 - (b) during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholder is made in this prospectus and ending on the date which is 6 months from the Listing Date (the “**First Six-Month Period**”), he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates and companies controlled by him/her/it and any nominee or trustee holding on trust for himself/herself/itself shall not, without the prior written consent of the Sole Bookrunner or otherwise in compliance with the requirements of the GEM Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or such securities; or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise; (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in (i) or (ii) above; or (iv) announce any intention to enter into or effect any of the transactions referred to in (i), (ii) or (iii) above;
 - (c) during the period of 6 months commencing on the date immediately following the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates or companies controlled by him/her/it and any nominee or trustee holding in trust for himself/herself/itself shall not, without the

UNDERWRITING

prior written consent of the Sole Bookrunner and the Stock Exchange (if required under the GEM Listing Rules), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares held by him/her/it or any of his/her/its associates or companies controlled by him/her/it or any nominee or trustee holding on trust for himself/herself/itself if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would together cease to be our Controlling Shareholder; and

- (d) in the event of a disposal of any Shares or securities of the Company or any interest therein within the Second Six-Month Period, he/she/it shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for any Shares or other securities of the Company,

provided that the restrictions in this paragraph (i)(b) and (c) shall not apply to any Shares which our Controlling Shareholders or any of his/her/its respective associates may acquire or become interested in following the Listing Date;

- (ii) each of our Controlling Shareholders undertakes to and covenants with our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Stock Exchange that:
 - (A) in the event that he/she/it pledges or charges any of his/her/its direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods as specified in paragraph (i) above, he/she/it must inform our Company, the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
 - (B) having pledged or charged any of his/her/its interests in the Shares under subparagraph (A) above, he/she/it must inform our Company, the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected; and

UNDERWRITING

- (b) our Company undertakes to and covenants with the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager, and each of our executive Directors and our Controlling Shareholders jointly and severally undertakes to and covenants with the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager to procure that, save with the prior written consent of the Sole Sponsor (for and on behalf of the Underwriters), or save pursuant to the Placing, our Company shall not, within the period of six months from the Listing Date:
- (i) save as permitted under the GEM Listing Rules (including but not limited to Rule 17.29 of the GEM Listing Rules) and the applicable laws, either directly or indirectly, conditionally or unconditionally, allot or issue or agree to allot or issue any Shares or any other securities of our Company (including warrants or other convertible securities (and whether or not a class already listed));
 - (ii) grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise convert into, or exchange for any Shares or any other securities of our Company;
 - (iii) purchase any securities of our Company;
 - (iv) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise; or
 - (v) offer to or agree to do any of the foregoing or announce any intention to do so.

Our Company will inform the Stock Exchange as soon as it has been informed of the above matters (if any) by the Controlling Shareholders and disclose such matters by way of publishing an announcement in accordance with Rule 17.43 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE PLACING

PRICE PAYABLE ON SUBSCRIPTION

The Placing Price plus a 1% brokerage fee, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee make up the total price payable in cash on subscription.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

- (a) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein on GEM; and
- (b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Sole Sponsor (for itself and on behalf of the Underwriters) and the Underwriting Agreement not being terminated in accordance with the terms of that agreement or otherwise), in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) or such other dates as the Sole Sponsor (for itself and on behalf of the Underwriters) may agree but in any event not later than the 30th day after the date of this prospectus.

If such conditions are not fulfilled or waived by the Sole Sponsor (for itself and on behalf of the Underwriters) prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by our Company on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.greatwater.com.cn immediately following such lapse.

THE PLACING

75,000,000 Placing Shares are being offered pursuant to the Placing, representing in aggregate 25% of the enlarged issued share capital of our Company.

The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement. Pursuant to the Placing, it is expected that the Underwriters, on behalf of our Company, will conditionally place 75,000,000 Placing Shares at the Placing Price to selected professional, institutional and other investors in Hong Kong. Professional and institutional investors generally include brokers, dealers, companies, high net worth individuals and companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

STRUCTURE AND CONDITIONS OF THE PLACING

BASIS OF ALLOCATION

Allocation of the Placing Shares to selected professional, institutional and other investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to purchase further Shares or hold or sell their Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that not more than 50% of the Shares in public hands at the time of Listing will be owned by the three largest public Shareholders. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

No allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

COMMENCEMENT OF DEALINGS

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Wednesday, 9 December 2015. The Shares will be traded in board lots of 4,000 Shares each. The GEM stock code for the Shares is 8196.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus on GEM and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

In respect of the dealings in the Shares which may be settled through CCASS, investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

STRUCTURE AND CONDITIONS OF THE PLACING

PLACING PRICE

Investors, when investing for the Placing Shares, shall pay the Placing Price plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. Based on the Placing Price of HK\$0.96 per Placing Share, investors shall pay HK\$3,878.69 for every board lot of 4,000 Shares.

The level of indication of interests in the Placing and the basis of allocations of the Placing Shares will be announced on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.greatwater.com.cn at or before 9:00 a.m. on Tuesday, 8 December 2015.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

30 November 2015

The Directors
Great Water Holdings Limited
Shenwan Hongyuan Capital (H.K.) Limited

Dear Sirs,

We set out below our report on the financial information of Great Water Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2013 and 2014 and the six-month period ended 30 June 2015 (the “Relevant Periods”), the combined statements of financial position of the Group as at 31 December 2013 and 2014 and 30 June 2015, and the statement of financial position of the Company as at 30 June 2015, together with the notes thereto (the “Financial Information”), and the combined statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six-month period ended 30 June 2014 (the “Interim Comparative Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 30 November 2015 (the “Prospectus”) in connection with the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 March 2015. Pursuant to a group reorganisation (the “Reorganisation”) as set out in note 2.1 of Section II below, which was completed on 10 July 2015, the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the combined financial statements of the Group (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial

Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Underlying Financial Statements for each of the years ended 31 December 2013 and 2014 and the six-month period ended 30 June 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information 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. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Group as at 31 December 2013 and 2014 and 30 June 2015 and the Company as at 30 June 2015 and of the combined financial performance and cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

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

I. FINANCIAL INFORMATION

Combined Statements of Profit or Loss and Other Comprehensive Income

	<i>Notes</i>	Year ended 31 December		Six-month period ended 30 June	
		2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>
				(Unaudited)	
REVENUE	5	62,816	122,222	13,956	63,051
Cost of sales		<u>(47,093)</u>	<u>(86,495)</u>	<u>(10,511)</u>	<u>(45,828)</u>
Gross profit		15,723	35,727	3,445	17,223
Other income and gains	5	2,076	2,449	989	1,330
Selling and distribution expenses		(816)	(989)	(335)	(954)
Administrative expenses		(7,074)	(10,316)	(3,580)	(9,472)
Other expenses		(1)	(104)	—	—
Finance costs	7	<u>(163)</u>	<u>(160)</u>	<u>(5)</u>	<u>(167)</u>
PROFIT BEFORE TAX	6	9,745	26,607	514	7,960
Income tax expense	10	<u>(1,528)</u>	<u>(3,895)</u>	<u>(110)</u>	<u>(2,068)</u>
PROFIT FOR THE YEAR/PERIOD		<u>8,217</u>	<u>22,712</u>	<u>404</u>	<u>5,892</u>

	Year ended		Six-month period	
	31 December		ended 30 June	
	2013	2014	2014	2015
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)				
OTHER COMPREHENSIVE INCOME				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	1	(4)	(3)	(13)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	1	(4)	(3)	(13)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Surplus on revaluation of investment properties	2,298	2,183	2,183	—
Income tax effect	(574)	(546)	(546)	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	1,724	1,637	1,637	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	1,725	1,633	1,634	(13)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>9,942</u>	<u>24,345</u>	<u>2,038</u>	<u>5,879</u>

Combined Statements of Financial Position

	Notes	As at 31 December		As at
		2013	2014	30 June
		RMB'000	RMB'000	2015
				RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	12	6,091	4,252	5,071
Investment properties	13	16,265	20,106	20,425
Prepaid land lease payments	14	357	183	173
Total non-current assets		<u>22,713</u>	<u>24,541</u>	<u>25,669</u>
CURRENT ASSETS				
Inventories	16	3,844	3,422	6,940
Gross amount due from contract customers	17	10,459	6,054	12,536
Trade and bills receivables	18	24,093	70,558	75,622
Prepayments, deposits and other receivables	19	7,806	5,131	66,487
Cash and bank balances	20	3,446	17,532	19,108
Total current assets		<u>49,648</u>	<u>102,697</u>	<u>180,693</u>
CURRENT LIABILITIES				
Trade payables	21	26,398	45,636	61,601
Gross amount due to contract customers	17	1,709	290	—
Other payables and accruals	22	4,769	11,562	54,955
Interest-bearing bank borrowings	23	—	—	15,000
Tax payable		1,444	3,004	2,986
Total current liabilities		<u>34,320</u>	<u>60,492</u>	<u>134,542</u>
NET CURRENT ASSETS		<u>15,328</u>	<u>42,205</u>	<u>46,151</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>38,041</u>	<u>66,746</u>	<u>71,820</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities	24	2,566	2,856	2,581
Total non-current liabilities		<u>2,566</u>	<u>2,856</u>	<u>2,581</u>
Net assets		<u>35,475</u>	<u>63,890</u>	<u>69,239</u>
EQUITY				
Share capital	25	—	—	1,776
Reserves	26	35,475	63,890	67,463
Total equity		<u>35,475</u>	<u>63,890</u>	<u>69,239</u>

Combined Statements of Changes in Equity

	Share capital RMB'000 (note 25)	Capital reserve RMB'000	Merger reserve [^] RMB'000	Asset revaluation reserve RMB'000	Reserve fund [#] RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2013	—	—	30,100	5,773	—	—	(10,340)	25,533
Profit for the year	—	—	—	—	—	—	8,217	8,217
Other comprehensive income for the year:								
Surplus on revaluation of investment properties	—	—	—	1,724	—	—	—	1,724
Exchange differences on translation of foreign operations	—	—	—	—	—	1	—	1
Total comprehensive income for the year	—	—	—	1,724	—	1	8,217	9,942
At 31 December 2013 and 1 January 2014	—	—*	30,100*	7,497*	—*	1*	(2,123)*	35,475
							Retained profits/ Accumulated losses)	Total equity
							(Accumulated losses)	RMB'000
							RMB'000	RMB'000
At 1 January 2014	—	—	30,100	7,497	—	1	(2,123)	35,475
Profit for the year	—	—	—	—	—	—	22,712	22,712
Other comprehensive income for the year:								
Surplus on revaluation of investment properties	—	—	—	1,637	—	—	—	1,637
Exchange differences on translation of foreign operations	—	—	—	—	—	(4)	—	(4)
Total comprehensive income for the year	—	—	—	1,637	—	(4)	22,712	24,345
Capital contribution from a shareholder	—	—	4,070	—	—	—	—	4,070
Transfer from retained profits	—	—	—	—	2,063	—	(2,063)	—
At 31 December 2014 and 1 January 2015	—	—*	34,170*	9,134*	2,063*	(3)*	18,526*	63,890

	Share capital RMB'000 (note 25)	Capital reserve RMB'000	Merger reserve [^] RMB'000	Asset revaluation reserve RMB'000	Reserve fund [#] RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2015	—	—	34,170	9,134	2,063	(3)	18,526	63,890
Profit for the period	—	—	—	—	—	—	5,892	5,892
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(13)	—	(13)
Total comprehensive income for the period	—	—	—	—	—	(13)	5,892	5,879
Issue of shares	1,776	45,694	—	—	—	—	—	47,470
Distribution to shareholders	—	—	(48,000)	—	—	—	—	(48,000)
Transfer from retained profits	—	—	—	—	563	—	(563)	—
At 30 June 2015	<u>1,776</u>	<u>45,694*</u>	<u>(13,830)*</u>	<u>9,134*</u>	<u>2,626*</u>	<u>(16)*</u>	<u>23,855*</u>	<u>69,239</u>

	Share capital RMB'000 (note 25)	Capital reserve RMB'000	Merger reserve [^] RMB'000	Asset revaluation reserve RMB'000	Reserve fund [#] RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
(Unaudited)								
At 1 January 2014	—	—	30,100	7,497	—	1	(2,123)	35,475
Profit for the period	—	—	—	—	—	—	404	404
Other comprehensive income for the period:								
Surplus on revaluation of investment properties	—	—	—	1,637	—	—	—	1,637
Exchange differences on translation of foreign operations	—	—	—	—	—	(3)	—	(3)
Total comprehensive income for the period	—	—	—	1,637	—	(3)	404	2,038
At 30 June 2014	<u>—</u>	<u>—</u>	<u>30,100</u>	<u>9,134</u>	<u>—</u>	<u>(2)</u>	<u>(1,719)</u>	<u>37,513</u>

* These reserve accounts comprise the combined reserves of RMB35,475,000, RMB63,890,000 and RMB67,463,000 in the combined statements of financial position as at 31 December 2013 and 2014 and 30 June 2015, respectively.

[^] The merger reserve of the Group represents the capital contributions from the equity holders of certain subsidiaries now comprising the Group before the completion of the Reorganisation.

[#] Pursuant to the relevant laws and regulations relating to foreign investment enterprises, a portion of the profits of certain subsidiaries in the People's Republic of China (the "PRC") is required to be transferred to the PRC statutory surplus reserve which is restricted as to use. These PRC entities are not required to make any further transfer when the amount of the PRC statutory surplus reserve reaches 50% of their registered capital. The PRC statutory surplus reserve can be used to offset their accumulated losses or to increase their registered capital, provided the remaining balance of the PRC statutory surplus reserve is not less than 25% of the registered capital.

Combined Statements of Cash Flows

	Notes	Year ended 31 December		Six-month period ended 30 June	
		2013 RMB'000	2014 RMB'000	2014 RMB'000	2015 RMB'000
				(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		9,745	26,607	514	7,960
Adjustments for:					
Finance costs	7	163	160	5	167
Bank interest income	5	(64)	(44)	(19)	(35)
Depreciation	12	1,182	879	485	334
Fair value gains on investment properties	13	(316)	(384)	—	(319)
Recognition of prepaid land lease payments	14	33	25	12	12
		10,743	27,243	997	8,119
(Increase)/decrease in inventories		(3,844)	422	(6,295)	(3,518)
(Increase)/decrease in gross amount due from contract customers		(13,772)	4,405	2,794	(6,482)
Increase in trade and bills receivables		(13,381)	(46,465)	(5,378)	(5,064)
(Increase)/decrease in prepayments, deposits and other receivables		(669)	3,140	(9,602)	(17,227)
Increase in trade payables		24,142	19,238	5,535	15,965
Increase/(decrease) in gross amount due to contract customers		1,709	(1,419)	(1,709)	(290)
Increase in other payables and accruals		1,779	6,793	15,964	171
Cash generated from/(used in) operations		6,707	13,357	2,306	(8,326)
Interest received		64	44	19	35
Overseas taxes paid		(332)	(2,591)	(1,495)	(2,361)
Net cash flows from/(used in) operating activities		6,439	10,810	830	(10,652)

	Year ended 31 December		Six-month period ended 30 June	
	2013	2014	2014	2015
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)				
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment	(606)	(233)	(36)	(1,153)
Proceeds from disposal of items of property, plant and equipment	—	73	—	—
Net cash flows used in investing activities	<u>(606)</u>	<u>(160)</u>	<u>(36)</u>	<u>(1,153)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans	—	4,716	4,716	15,000
Repayments of bank loans	(20,000)	(4,716)	—	—
Interest paid	(163)	(160)	(5)	(145)
Capital contribution from a shareholder	—	4,070	—	—
Payment of listing expenses	—	(470)	—	(1,447)
Net cash flows (used in)/from financing activities	<u>(20,163)</u>	<u>3,440</u>	<u>4,711</u>	<u>13,408</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS				
	(14,330)	14,090	5,505	1,603
Cash and cash equivalents at beginning of year/period	17,775	3,446	3,446	17,532
Effect of foreign exchange rate changes, net	<u>1</u>	<u>(4)</u>	<u>(3)</u>	<u>(27)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u><u>3,446</u></u>	<u><u>17,532</u></u>	<u><u>8,948</u></u>	<u><u>19,108</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances as stated in the combined statements of financial position	<i>20</i>	<u>3,446</u>	<u>17,532</u>	<u>8,948</u>
		<u>17,532</u>	<u>8,948</u>	<u>19,108</u>
Cash and cash equivalents as stated in the combined statements of cash flows		<u><u>3,446</u></u>	<u><u>17,532</u></u>	<u><u>8,948</u></u>
		<u><u>17,532</u></u>	<u><u>8,948</u></u>	<u><u>19,108</u></u>

Statement of Financial Position

	<i>Notes</i>	As at 30 June 2015 RMB'000
Investment in a subsidiary	15	<u>47,415</u>
Total non-current assets		<u>47,415</u>
Prepayments, deposits and other receivables	19	<u>42,684</u>
Total current assets		<u>42,684</u>
Other payables and accruals	22	<u>42,684</u>
Total current liabilities		<u>42,684</u>
NET CURRENT ASSETS		<u>—</u>
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS		<u><u>47,415</u></u>
EQUITY		
Share capital	25	1,776
Reserves	26	<u>45,639</u>
Total equity		<u><u>47,415</u></u>

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at 50th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the environmental protection business, such as the wastewater treatment and the soil remediation, through the design, construction, operation and maintenance service of related facilities and the trading of related equipment.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group Structure" in the Prospectus. The Company became the holding company of the subsidiaries now comprising the Group upon completion of the Reorganisation on 10 July 2015.

The Company was incorporated with an authorised share capital of Hong Kong Dollars ("HK\$") 20,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.01 each and 3 ordinary shares of HK\$0.01 each were issued and allotted to the shareholders on 25 March 2015. A total of 224,999,997 ordinary shares of HK\$0.01 each were issued and allotted to the shareholders on 2 June 2015.

As at the date of this report, the Company has direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration and business	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Great Water EP Investment (China) limited ¹	Hong Kong 10 March 2015	HK\$60,125,001	100	—	Investment holding
Lintao Environmental Protection Co., Ltd. ^{^#1} (廣州霖濤環保技術有限公司)	The PRC/ Mainland China 28 April 2015	RMB48,000,000	—	100	Design and construction and sale of equipment for wastewater projects
Hongrun Environmental Protection Co., Ltd. ^{^^#1} (廣州宏潤環保技術有限公司)	The PRC/ Mainland China 7 May 2015	RMB48,000,000	—	100	Design and construction and sale of equipment for wastewater projects
Guangzhou Great Water Environmental Protection Co., Ltd. ^{^^*#2} ("Great Water") (廣州中科建禹環保有限公司)	The PRC/ Mainland China 2 August 2001	RMB33,333,300	—	100	Design and construction and sale of equipment for environmental protection projects
Trung Khoa Kien Vu Environmental Protection (Vietnam) Company Limited ³ (“Great Water Vietnam”)	Vietnam 22 August 2013	US\$180,000	—	100	Design and construction for wastewater projects

- [^] Registered as a wholly foreign owned enterprise under the PRC Law.
- ^{^^} Registered as domestic enterprises under the PRC Law.
- ^{*} This company's name was Guangzhou Great Water Treatment Technology Co., Ltd. (廣州中科建禹水處理技術有限公司) before December 2012.
- [#] The English names of these companies represent the best effort made by management of the Company to directly translate the Chinese names as they do not register any official English names.
- ¹ No statutory financial statements have been issued for these companies subsequent to their dates of incorporation.
- ² The statutory financial statements of this entity for the year ended 31 December 2013 were prepared in accordance with the relevant accounting rules and regulations applicable in the PRC and were audited by Guangzhou Heng Yue Certified Public Accountants Firm (廣州恒越會計師事務所有限公司), certified public accountants registered in the PRC. The statutory financial statements of this entity for the year ended 31 December 2014 were audited by Guangzhou Zhi Ren Certified Public Accountants Firm (廣州知仁會計師事務所), certified public accountants registered in the PRC.
- ³ The statutory financial statements of this entity for the year ended 31 December 2013 were prepared in accordance with the relevant accounting rules and regulations applicable in Vietnam and were audited by VACO Auditing Company Limited, certified public accountants registered in Vietnam. The statutory financial statements of this entity for the year ended 31 December 2014 were audited by Ernst & Young Vietnam Limited.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group Structure" in the Prospectus, the Company became the holding company of the companies now comprising the Group subsequent to reporting date on 10 July 2015. As the Reorganisation only involved inserting new holding entities at the top of Great Water, the then holding company of the Group, and has not resulted in any change of economic substances, the Financial Information and the Interim Comparative Information have been prepared as a continuation of the companies now comprising the Group as if the Reorganisation had been completed at the beginning of the Relevant Periods.

Accordingly, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows are prepared as if the current group structure had been in existence throughout the Relevant Periods. The combined statements of financial position as at 31 December 2013 and 2014 and 30 June 2015 present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates.

All intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for investment properties which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 9	<i>Financial Instruments</i> ⁴
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ²
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
HKFRS 15	<i>Revenue from Contracts with Customers</i> ³
Amendments to HKAS 1	<i>Disclosure Initiative</i> ²
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ²
Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ²
<i>Annual Improvements 2010–2012 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2011–2013 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2012–2014 Cycle</i>	Amendments to a number of HKFRSs ²

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ Effective for an entity that first adopts HKFRS for its financial statements for a period beginning on or after 1 January 2016 and not applicable to the Group

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Basis of combination

The combined financial statements include the financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are combined from the beginning of the Relevant Periods or the date on which a subsidiary was incorporated, whichever is the later, and continue to be combined until the date that such control ceases. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

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

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

Fair value measurement

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

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

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

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the combined statements of profit or loss and other comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (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).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	1.9%
Building improvements	20%
Electronic equipment	19%
Dedicated equipment	19%
Furniture and fixtures	19%
Motor vehicles	19%

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

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the combined statements of profit or loss and other comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the combined statements of profit or loss and other comprehensive income in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as a movement in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the combined statements of profit or loss and other comprehensive income. On disposal of an investment property previously transferred from an owner-occupied property, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

Subsequent measurement — loans and receivables

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

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control

of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group are classified, at initial recognition, as loans and borrowings.

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

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

Subsequent measurement — loans and borrowings

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the combined statements of profit or loss and other comprehensive income.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;
- (c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of sub-contracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

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

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

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

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as amounts due to contract customers.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the combined statements of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the combined statements of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends are recognised as a liability when they have been approved by the shareholders.

Foreign currencies

The Financial Information is presented in RMB, as this is the principal currency of the economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the combined statements of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss

arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income is also recognised in other comprehensive income, respectively).

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the

production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

The Group's determination as to whether to accrue for deferred tax for withholding taxes from the distribution of dividends from the subsidiary in Mainland China according to the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiary in Mainland China will not be distributed in the foreseeable future, no deferred tax for withholding taxes are provided.

Estimation uncertainty

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

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2013 and 2014 and 30 June 2015 was RMB16,265,000, RMB20,106,000 and RMB20,425,000, respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 13 to the Financial Information.

Provision for income taxes

Provision for income tax is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amounts of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

Impairment of trade and bills receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the aging of its receivable balances, debtors' creditworthiness, past payment history and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the Engineering, Procurement and Construction projects ("EPC projects") segment comprises projects in which an enterprise is commissioned by a customer to act as a general contractor to take care of the overall design, procure and construct water or wastewater treatment facilities pursuant to the contract and be responsible for the quality, safety, time control and pricing of the project;
- (b) the construction projects segment represents construction projects other than EPC projects, including soil remediation project;
- (c) the equipment projects segment comprises projects in which an enterprise is engaged by a customer for procurement of necessary materials, equipment and machinery, installation, testing and commissioning of the equipment and machinery for the treatment facilities as well as provision of technical consulting services to upgrade or optimise the design of the water or wastewater treatment facilities pursuant to the contract; and
- (d) the "others" segment comprises, principally, the Group's operation and maintenance services in which an enterprise is retained to operate and maintain water or wastewater treatment facilities for a certain period for certain operate and maintain fee on a monthly or quarterly basis.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, fair value gains from the Group's investment properties as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude tax recoverable, cash and cash equivalents, property, plant and equipment, investment properties, prepaid land lease payments and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2013	EPC projects <i>RMB'000</i>	Construction projects <i>RMB'000</i>	Equipment projects <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:					
Sales to external customers	<u>42,147</u>	<u>2,807</u>	<u>16,666</u>	<u>1,196</u>	<u>62,816</u>
Segment results	10,115	460	4,439	709	15,723
<i>Reconciliation:</i>					
Interest income					64
Unallocated gains					2,012
Corporate and other unallocated expenses					(7,891)
Finance costs					<u>(163)</u>
Profit before tax					<u>9,745</u>
Segment assets	24,301	1,457	14,156	559	40,473
<i>Reconciliation:</i>					
Corporate and other unallocated assets					<u>31,888</u>
Total assets					<u>72,361</u>
Segment liabilities	12,740	2,170	13,661	—	28,571
<i>Reconciliation:</i>					
Corporate and other unallocated liabilities					<u>8,315</u>
Total liabilities					<u>36,886</u>
Other segment information:					
Depreciation and amortisation					<u>1,215</u>
Capital expenditure*					<u>606</u>

* Capital expenditure consists of additions to property, plant and equipment.

Year ended 31 December 2014	EPC projects <i>RMB'000</i>	Construction projects <i>RMB'000</i>	Equipment projects <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:					
Sales to external customers	<u>25,624</u>	<u>722</u>	<u>87,332</u>	<u>8,544</u>	<u>122,222</u>
Segment results	2,993	130	25,196	7,408	35,727
<i>Reconciliation:</i>					
Interest income					44
Unallocated gains					2,405
Corporate and other unallocated expenses					(11,409)
Finance costs					<u>(160)</u>
Profit before tax					<u>26,607</u>
Segment assets	23,254	2,608	49,026	7,054	81,942
<i>Reconciliation:</i>					
Corporate and other unallocated assets					<u>45,296</u>
Total assets					<u>127,238</u>
Segment liabilities	11,568	510	37,444	222	49,744
<i>Reconciliation:</i>					
Corporate and other unallocated liabilities					<u>13,604</u>
Total liabilities					<u>63,348</u>
Other segment information:					
Depreciation and amortisation					<u>904</u>
Capital expenditure*					<u>233</u>

* Capital expenditure consists of additions to property, plant and equipment.

Six-month period ended 30 June 2015	EPC projects <i>RMB'000</i>	Construction projects <i>RMB'000</i>	Equipment projects <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:					
Sales to external customers	<u>5,655</u>	<u>10,734</u>	<u>44,941</u>	<u>1,721</u>	<u>63,051</u>
Segment results	1,132	3,266	11,911	914	17,223
<i>Reconciliation:</i>					
Interest income					35
Unallocated gains					1,295
Corporate and other unallocated expenses					(10,426)
Finance costs					<u>(167)</u>
Profit before tax					<u>7,960</u>
Segment assets	32,858	6,792	73,385	1,693	114,728
<i>Reconciliation:</i>					
Corporate and other unallocated assets					<u>91,634</u>
Total assets					<u>206,362</u>
Segment liabilities	7,967	4,069	53,076	426	65,538
<i>Reconciliation:</i>					
Corporate and other unallocated liabilities					<u>71,585</u>
Total liabilities					<u>137,123</u>
Other segment information:					
Depreciation and amortisation					<u>334</u>
Capital expenditure*					<u>1,153</u>

* Capital expenditure consists of additions to property, plant and equipment.

Six-month period ended 30 June 2014 (Unaudited)	EPC projects <i>RMB'000</i>	Construction projects <i>RMB'000</i>	Equipment projects <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:					
Sales to external customers	4,206	73	8,923	754	13,956
Segment results	828	12	2,205	400	3,445
<i>Reconciliation:</i>					
Interest income					19
Unallocated gains					970
Corporate and other unallocated expenses					(3,915)
Finance costs					(5)
Profit before tax					514
Segment assets	24,967	1,529	25,579	735	52,810
<i>Reconciliation:</i>					
Corporate and other unallocated assets					45,256
Total assets					98,066
Segment liabilities	16,571	—	26,486	395	43,452
<i>Reconciliation:</i>					
Corporate and other unallocated liabilities					17,101
Total liabilities					60,553
Other segment information:					
Depreciation and amortisation					485
Capital expenditure*					36

* Capital expenditure consists of additions to property, plant and equipment.

Geographical information*(a) Revenue from external customers*

	Year ended 31 December		Six-month period ended 30 June	
	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
			(Unaudited)	
Mainland China	62,816	111,507	13,956	59,620
Vietnam	—	10,715	—	3,431
	<u>62,816</u>	<u>122,222</u>	<u>13,956</u>	<u>63,051</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
			RMB'000
Mainland China	22,713	24,530	25,663
Vietnam	—	11	6
	<u>22,713</u>	<u>24,541</u>	<u>25,669</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue derived from sales to each of the major customers, including sales to a group of entities which are known to be under common control with those customer, which accounted for 10% or more of the Group's revenue for each of the Relevant Periods and the six-month period ended 30 June 2014 is set out below:

	Year ended 31 December		Six-month period ended 30 June	
	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
			(Unaudited)	
Customer A	22,876	19,686	4,993	25,926
Customer B	19,256	19,286	3,999	14,786
Customer C	11,419	16,911	2,568	10,065
Customer D	7,482	15,778	1,432	—

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; and rental income received and receivable from investment properties during the Relevant Periods. An analysis of revenue, other income and gains is as follows:

	<i>Notes</i>	Year ended 31 December		Six-month period ended 30 June	
		2013	2014	2014	2015
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Revenue					
Income from construction contracting and related business		44,954	26,346	4,279	16,389
Sales of goods		16,666	87,332	8,923	44,941
Rendering of maintenance services		<u>1,196</u>	<u>8,544</u>	<u>754</u>	<u>1,721</u>
		<u>62,816</u>	<u>122,222</u>	<u>13,956</u>	<u>63,051</u>
Other income					
Bank interest income		64	44	19	35
Rental income		1,132	1,863	970	946
Government grants*					
— Related to income		564	147	—	—
Exchange gains, net		—	—	—	30
Others		<u>—</u>	<u>11</u>	<u>—</u>	<u>—</u>
		<u>1,760</u>	<u>2,065</u>	<u>989</u>	<u>1,011</u>
Gains					
Fair value gains on investment properties	13	<u>316</u>	<u>384</u>	<u>—</u>	<u>319</u>
		<u>2,076</u>	<u>2,449</u>	<u>989</u>	<u>1,330</u>

* Government grants had been received from the PRC government authorities in recognition of the Group's efforts in technology innovation in Guangzhou, the PRC. There were no unfulfilled conditions or contingencies in relation to the grants.

6. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December		Six-month period ended 30 June	
		2013 RMB'000	2014 RMB'000	2014 RMB'000 (Unaudited)	2015 RMB'000
Cost of inventories sold		12,196	61,632	6,714	33,030
Cost of construction contracting		34,270	23,749	3,432	11,948
Cost of services provided		627	1,114	365	850
Depreciation	12	1,182	879	485	334
Amortisation of land lease payments	14	33	25	12	12
Auditors' remuneration		22	255	8	906
Employee benefit expense (excluding Directors' and chief executive's remuneration as disclosed in note 8):					
Wages and salaries		2,964	3,787	1,429	2,566
Pension scheme contributions [#]		229	266	105	191
Other welfare		509	801	316	663
		<u>3,702</u>	<u>4,854</u>	<u>1,850</u>	<u>3,420</u>
Foreign exchange differences, net		—	—	—	(30)
Changes in fair value of investment properties	13	(316)	(384)	—	(319)
Rental income on investment properties		(1,255)	(2,071)	(1,086)	(1,164)
Less: outgoings		<u>123</u>	<u>208</u>	<u>116</u>	<u>218</u>
Rental income		<u>(1,132)</u>	<u>(1,863)</u>	<u>(970)</u>	<u>(946)</u>
Bank interest income*	5	(64)	(44)	(19)	(35)
Loss on disposal of items of property, plant and equipment*		<u>—</u>	<u>73</u>	<u>—</u>	<u>—</u>

* Gains are included in "Other income and gains" and the losses are included in "Other expenses", as appropriate, in the combined statements of profit or loss and other comprehensive income.

As at the end of each of the Relevant Periods, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December		Six-month period ended 30 June	
	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
			(Unaudited)	
Interest on bank loans	<u>163</u>	<u>160</u>	<u>5</u>	<u>167</u>

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive Directors, non-executive Directors and independent non-executive Directors at any time for the years ended 31 December 2013 and 2014 and the six-month periods ended 30 June 2014 since the Company was only incorporated subsequently on 25 March 2015.

Mr. Xie Yang and Mr. He Xuan Xi were appointed as executive Directors of the Company on 27 May 2015. Ms. Gong Lan Lan and Mr. Song Xiao Xing were appointed as non-executive Directors of the Company on 27 May 2015. Mr. Tse Chi Wai, Mr. Ha Cheng Yong and Ms. Bai Shuang were appointed as independent non-executive Directors of the Company on 24 November 2015, Mr. Xie Yang was appointed as the chief executive of the Company on 27 May 2015 and Mr. Tsui Kan Chun was appointed as the chief financial officer of the Company on 27 May 2015.

Certain of the Directors and the chief executive received remuneration from the subsidiaries now comprising the Group for their appointment as Directors of these subsidiaries. The remuneration of each of these Directors and the chief executive as recorded in the financial statements of the subsidiaries is set out below:

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2013				
Executive Directors				
Mr. Xie Yang	—	254	11	265
Mr. He Xuan Xi	<u>—</u>	<u>146</u>	<u>10</u>	<u>156</u>
	<u>—</u>	<u>400</u>	<u>21</u>	<u>421</u>
Year ended 31 December 2014				
Executive Directors				
Mr. Xie Yang	—	279	22	301
Mr. He Xuan Xi	<u>—</u>	<u>165</u>	<u>14</u>	<u>179</u>
	<u>—</u>	<u>444</u>	<u>36</u>	<u>480</u>

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Six-month period ended 30 June 2015				
Executive Directors				
Mr. Xie Yang	—	126	13	139
Mr. He Xuan Xi	—	92	10	102
	<u>—</u>	<u>218</u>	<u>23</u>	<u>241</u>
Six-month period ended 30 June 2014 (Unaudited)				
Executive Directors				
Mr. Xie Yang	—	136	7	143
Mr. He Xuan Xi	—	67	5	72
	<u>—</u>	<u>203</u>	<u>12</u>	<u>215</u>

9. FIVE HIGHEST PAID EMPLOYEES

Two, two, two and two of the highest paid individuals were Directors of the Company for the years ended 31 December 2013 and 2014 and the six-month periods ended 30 June 2014 and 2015, respectively. Details of their remuneration are set out in note 8 above.

Details of the remuneration of the remaining three, three, three and three highest paid employees, who are neither a Director nor the chief executive, for the years ended 31 December 2013 and 2014 and the six-month periods ended 30 June 2014 and 2015, respectively, are as follows:

	Year ended 31 December		Six-month period ended 30 June	
	2013	2014	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	
Salaries, allowances and benefits in kind	556	649	292	451
Retirement benefit scheme contributions	40	52	22	23
	<u>596</u>	<u>701</u>	<u>314</u>	<u>474</u>

The number of non-Director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December		Six-month period ended 30 June	
	2013	2014	2014	2015
			(Unaudited)	
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Relevant Periods, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods and the six-month period ended 30 June 2015. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiary which operates in Mainland China is subject to Corporate Income Tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group's principal operating subsidiary, Great Water, since it was recognised as a High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% had been applied during the years ended 31 December 2013 and 2014.

Pursuant to the Vietnam Income Tax Law and the respective regulations, the subsidiary which operates in Vietnam is subject to Corporate Income Tax at a rate of 22% on the taxable income.

	Year ended 31 December		Six-month period ended 30 June	
	2013	2014	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	
Current — Elsewhere other than Hong Kong	1,498	4,151	51	2,343
Deferred (<i>note 24</i>)	<u>30</u>	<u>(256)</u>	<u>59</u>	<u>(275)</u>
Total tax charge for the year/period	<u>1,528</u>	<u>3,895</u>	<u>110</u>	<u>2,068</u>

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Year ended 31 December 2013

	Mainland China		Vietnam		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>9,780</u>		<u>(35)</u>		<u>9,745</u>	
Tax at the statutory tax rate	2,445	25.0	(8)	22.0	2,437	25.0
Different tax rates for specific entities						
in the PRC	(978)	(10.0)	—	—	(978)	(10.0)
Expenses not deductible for tax	29	0.3	—	—	29	0.3
Tax rate differential	32	0.3	—	—	32	0.3
Tax losses not recognised	<u>—</u>	<u>—</u>	<u>8</u>	<u>(22.0)</u>	<u>8</u>	<u>0.1</u>
Tax charge at the Group's effective rate	<u>1,528</u>	<u>15.6</u>	<u>—</u>	<u>—</u>	<u>1,528</u>	<u>15.7</u>

Year ended 31 December 2014

	Mainland China		Vietnam		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>26,611</u>		<u>(4)</u>		<u>26,607</u>	
Tax at the statutory tax rate	6,653	25.0	(1)	22.0	6,652	25.0
Different tax rates for specific entities						
in the PRC	(2,661)	(10.0)	—	—	(2,661)	(10.0)
Effect on opening deferred tax of increase						
in rates	(68)	(0.3)	—	—	(68)	(0.3)
Expenses not deductible for tax	46	0.2	—	—	46	0.2
Tax rate differential	(75)	(0.3)	—	—	(75)	(0.3)
Tax losses not recognised	<u>—</u>	<u>—</u>	<u>1</u>	<u>(22.0)</u>	<u>1</u>	<u>—</u>
Tax charge at the Group's effective rate	<u>3,895</u>	<u>14.6</u>	<u>—</u>	<u>—</u>	<u>3,895</u>	<u>14.6</u>

Six-month period ended 30 June 2015

	Hong Kong		Mainland China		Vietnam		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>(217)</u>		<u>7,563</u>		<u>614</u>		<u>7,960</u>	
Tax at the statutory tax rate	(36)	16.5	1,891	25.0	135	22.0	1,990	25.0
Expenses not deductible for tax	—	—	48	0.7	—	—	48	0.6
Tax losses utilised from previous periods	—	—	—	—	(8)	(1.3)	(8)	(0.1)
Tax losses not recognised	<u>36</u>	<u>(16.5)</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>38</u>	<u>0.5</u>
Tax charge at the Group's effective rate	<u>—</u>	<u>—</u>	<u>1,941</u>	<u>25.7</u>	<u>127</u>	<u>20.7</u>	<u>2,068</u>	<u>26.0</u>

Six-month period ended 30 June 2014 (Unaudited)

	Mainland China		Vietnam		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>617</u>		<u>(103)</u>		<u>514</u>	
Tax at the statutory tax rate	154	25.0	(23)	22.0	131	25.5
Different tax rates for specific entities in the PRC	(62)	(10.0)	—	—	(62)	(12.1)
Expenses not deductible for tax	18	2.8	—	—	18	3.5
Tax losses not recognised	<u>—</u>	<u>—</u>	<u>23</u>	<u>(22.0)</u>	<u>23</u>	<u>4.5</u>
Tax credit at the Group's effective rate	<u>110</u>	<u>17.8</u>	<u>—</u>	<u>—</u>	<u>110</u>	<u>21.4</u>

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

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Building improvements RMB'000	Electronic equipment RMB'000	Dedicated equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2013							
At 1 January 2013:							
Cost	5,900	1,080	509	1,660	727	1,339	11,215
Accumulated depreciation	<u>(232)</u>	<u>(540)</u>	<u>(261)</u>	<u>(1,118)</u>	<u>(339)</u>	<u>(778)</u>	<u>(3,268)</u>
Net carrying amount	<u>5,668</u>	<u>540</u>	<u>248</u>	<u>542</u>	<u>388</u>	<u>561</u>	<u>7,947</u>
At 1 January 2013, net of accumulated depreciation							
	5,668	540	248	542	388	561	7,947
Additions	145	—	19	—	27	415	606
Transfer to investment properties (note 13)	(1,280)	—	—	—	—	—	(1,280)
Depreciation provided during the year	<u>(107)</u>	<u>(216)</u>	<u>(89)</u>	<u>(379)</u>	<u>(137)</u>	<u>(254)</u>	<u>(1,182)</u>
At 31 December 2013, net of accumulated depreciation							
	<u>4,426</u>	<u>324</u>	<u>178</u>	<u>163</u>	<u>278</u>	<u>722</u>	<u>6,091</u>
At 31 December 2013:							
Cost	4,746	1,080	528	1,660	754	1,754	10,522
Accumulated depreciation	<u>(320)</u>	<u>(756)</u>	<u>(350)</u>	<u>(1,497)</u>	<u>(476)</u>	<u>(1,032)</u>	<u>(4,431)</u>
Net carrying amount	<u>4,426</u>	<u>324</u>	<u>178</u>	<u>163</u>	<u>278</u>	<u>722</u>	<u>6,091</u>

	Buildings RMB'000	Building improvements RMB'000	Electronic equipment RMB'000	Dedicated equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2014								
At 1 January 2014:								
Cost	4,746	1,080	528	1,660	754	1,754	—	10,522
Accumulated depreciation	(320)	(756)	(350)	(1,497)	(476)	(1,032)	—	(4,431)
Net carrying amount	<u>4,426</u>	<u>324</u>	<u>178</u>	<u>163</u>	<u>278</u>	<u>722</u>	<u>—</u>	<u>6,091</u>
At 1 January 2014, net of accumulated depreciation								
	4,426	324	178	163	278	722	—	6,091
Additions	—	11	37	—	—	165	20	233
Transfer to investment properties (note 13)	(1,120)	—	—	—	—	—	—	(1,120)
Disposals	—	—	—	(73)	—	—	—	(73)
Depreciation provided during the year	(24)	(216)	(99)	(42)	(145)	(353)	—	(879)
At 31 December 2014, net of accumulated depreciation								
	<u>3,282</u>	<u>119</u>	<u>116</u>	<u>48</u>	<u>133</u>	<u>534</u>	<u>20</u>	<u>4,252</u>
At 31 December 2014:								
Cost	3,624	1,091	565	197	754	1,919	20	8,170
Accumulated depreciation	(342)	(972)	(449)	(149)	(621)	(1,385)	—	(3,918)
Net carrying amount	<u>3,282</u>	<u>119</u>	<u>116</u>	<u>48</u>	<u>133</u>	<u>534</u>	<u>20</u>	<u>4,252</u>

	Buildings RMB'000	Building improvements RMB'000	Electronic equipment RMB'000	Dedicated equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
30 June 2015								
At 1 January 2015:								
Cost	3,624	1,091	565	197	754	1,919	20	8,170
Accumulated depreciation	(342)	(972)	(449)	(149)	(621)	(1,385)	—	(3,918)
Net carrying amount	<u>3,282</u>	<u>119</u>	<u>116</u>	<u>48</u>	<u>133</u>	<u>534</u>	<u>20</u>	<u>4,252</u>
At 1 January 2015, net of accumulated depreciation								
	3,282	119	116	48	133	534	20	4,252
Additions	—	—	43	—	—	—	1,110	1,153
Depreciation provided during the period	(34)	(113)	(35)	(19)	(46)	(87)	—	(334)
At 30 June 2015, net of accumulated depreciation								
	<u>3,248</u>	<u>6</u>	<u>124</u>	<u>29</u>	<u>87</u>	<u>447</u>	<u>1,130</u>	<u>5,071</u>
At 30 June 2015:								
Cost	3,624	1,091	608	197	754	1,919	1,130	9,323
Accumulated depreciation	(376)	(1,085)	(484)	(168)	(667)	(1,472)	—	(4,252)
Net carrying amount	<u>3,248</u>	<u>6</u>	<u>124</u>	<u>29</u>	<u>87</u>	<u>447</u>	<u>1,130</u>	<u>5,071</u>

At 31 December 2013 and 2014 and 30 June 2015, the Group's buildings were pledged to secure general banking facilities granted to the Group (note 27).

13. INVESTMENT PROPERTIES

	As at 31 December		As at 30 June
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	12,201	16,265	20,106
Transfer from property, plant and equipment (note 12)	1,280	1,120	—
Transfer from prepaid land lease payments (note 14)	170	154	—
Surplus on revaluation of investment properties	2,298	2,183	—
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	<u>316</u>	<u>384</u>	<u>319</u>
Carrying amount at 31 December/30 June	<u>16,265</u>	<u>20,106</u>	<u>20,425</u>

The Group's investment properties are situated in Mainland China, which consist of one industrial building and one land use right. The land use right is held under a long term lease and the building is owned by a subsidiary of the Company.

The Group's investment properties were revalued on 31 December 2013 and 2014 and 30 June 2015 based on valuations performed by Roma Appraisals Limited, independent professionally qualified valuer, at RMB16,265,000, RMB20,106,000 and RMB20,425,000, respectively.

As at 31 December 2013 and 2014 and 30 June 2015, investment properties of the Group with a carrying amount of RMB16,265,000, RMB20,106,000 and RMB20,425,000, respectively, were leased to independent third parties under operating leases, further details of which are included in note 28 to the Financial Information.

Each year, the Group's property manager and the chief financial officer decide and, after approval from the Directors, appoint an external valuer for the valuations of the Group's properties. The selection criteria for the external valuer include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year around the year end when the valuation is performed for annual financial reporting.

At 31 December 2013 and 2014 and 30 June 2015, the Group's investment properties were pledged to secure general banking facilities granted to the Group (note 27).

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2013 using			
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active	inputs	inputs	
	markets			
	(Level 1)	(Level 2)	(Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement for:				
Industrial properties	—	—	16,265	16,265

	Fair value measurement as at 31 December 2014 using			
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active	inputs	inputs	
	markets			
	(Level 1)	(Level 2)	(Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement for:				
Industrial properties	—	—	20,106	20,106

Fair value measurement as at 30 June 2015 using

Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
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Recurring fair value measurement for:

Industrial properties	—	—	20,425	20,425
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During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	As at 31 December		As at 30 June
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	12,201	16,265	20,106
Transfer from property, plant and equipment (<i>note 12</i>)	1,280	1,120	—
Transfer from prepaid land lease payments (<i>note 14</i>)	170	154	—
Surplus on revaluation of investment properties	2,298	2,183	—
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	<u>316</u>	<u>384</u>	<u>319</u>
Carrying amount at 31 December/30 June	<u>16,265</u>	<u>20,106</u>	<u>20,425</u>

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

As at 31 December 2013

	Valuation techniques	Significant unobservable inputs	Amount
Industrial properties	Direct comparison approach	Market unit selling price	RMB16,265,000

As at 31 December 2014

	Valuation techniques	Significant unobservable inputs	Amount
Industrial properties	Direct comparison approach	Market unit selling price	RMB20,106,000

As at 30 June 2015

	Valuation techniques	Significant unobservable inputs	Amount
Industrial properties	Direct comparison approach	Market unit selling price	RMB20,425,000

The direct comparison approach

Under the direct comparison approach, the fair value is estimated by the direct comparison method on the assumption of the sale of the property interest with the benefit of vacant possession and by making reference to comparable sales transactions as available in the market.

The valuation takes into account the characteristic of the properties held for own use, which included the location, size, shape, view, floor level, year of completion and other factors collectively, to arrive at the market price.

The key input was the market price. A significant increase (decrease) in the market price would result in a significant increase (decrease) in the fair value of the properties held for own use.

14. PREPAID LAND LEASE PAYMENTS

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
			RMB'000
Carrying amount at 1 January	569	366	187
Transfer to investment properties (<i>note 13</i>)	(170)	(154)	—
Recognised during the year/period	<u>(33)</u>	<u>(25)</u>	<u>(12)</u>
Carrying amount at 31 December/30 June	366	187	175
Current portion included in prepayments, deposits and other receivables	<u>(9)</u>	<u>(4)</u>	<u>(2)</u>
Non-current portion	<u>357</u>	<u>183</u>	<u>173</u>

The leasehold land is situated in Mainland China and is held under a long term lease.

At 31 December 2013 and 2014 and 30 June 2015, the Group's leasehold land was pledged to secure general banking facilities granted to the Group (*note 27*).

15. INVESTMENT IN A SUBSIDIARY

Company

	As at 30 June 2015 RMB'000
Unlisted shares, at cost	47,415

Details of the subsidiaries are disclosed in note 1 to the Financial Information.

16. INVENTORIES

	As at 31 December		As at 30 June 2015 RMB'000
	2013 RMB'000	2014 RMB'000	
Finished goods	3,844	3,422	6,940

17. CONSTRUCTION CONTRACTS

	As at 31 December		As at 30 June 2015 RMB'000
	2013 RMB'000	2014 RMB'000	
Gross amount due from contract customers	10,459	6,054	12,536
Gross amount due to contract customers	(1,709)	(290)	—
	<u>8,750</u>	<u>5,764</u>	<u>12,536</u>
Contract costs incurred plus recognised profits less recognised losses to date	35,532	51,889	78,852
Less: Progress billings	(26,782)	(46,125)	(66,316)
	<u>8,750</u>	<u>5,764</u>	<u>12,536</u>

18. TRADE AND BILLS RECEIVABLES

	As at 31 December		As at 30 June 2015 RMB'000
	2013 RMB'000	2014 RMB'000	
Trade receivables	24,093	67,808	70,375
Bills receivable	—	2,750	5,247
	<u>24,093</u>	<u>70,558</u>	<u>75,622</u>

Trade receivables represented the outstanding contracted value for the sale of goods, construction contracts and rendering of services receivable from the customers at each of the reporting dates. The Group's trading terms with its customers are mainly on credit. Tax invoices are issued to the customers based on agreed schedules and the Group's trade receivables are subject to various credit terms. The credit period granted to the customers is 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. For retention monies receivable in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of each of the Relevant Periods, based on the transaction date and net of impairment provisions, is as follows:

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
			RMB'000
Within one month	12,485	23,163	31,502
One to three months	6,076	26,471	505
Three months to one year	4,009	13,436	32,105
One to two year	<u>775</u>	<u>2,962</u>	<u>3,498</u>
	23,345	66,032	67,610
Retention monies receivable	<u>748</u>	<u>1,776</u>	<u>2,765</u>
	<u>24,093</u>	<u>67,808</u>	<u>70,375</u>

An aged analysis of trade and bills receivables that are past due but not individually nor collectively considered to be impaired is as follows:

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
			RMB'000
Neither issued tax invoice, past due nor impaired	778	3,623	34,444
Issued tax invoice and neither past due nor impaired	23,315	66,935	40,276
Less than 1 month past due	—	—	189
1 to 3 months past due	—	—	393
Over 3 months past due	<u>—</u>	<u>—</u>	<u>320</u>
	<u>24,093</u>	<u>70,558</u>	<u>75,622</u>

Receivables neither issued tax invoice, past due nor impaired represent receivables which arose from revenue recognised but not yet issued tax invoice and were neither past due nor impaired at the end of the Relevant Periods.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 31 October 2015, approximately RMB31,970,000 of the outstanding trade receivables as at 30 June 2015 had been settled.

Transfers of financial assets

At 30 June 2015, the Group presented or endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain suppliers and banks with a carrying amount in aggregate of RMB2,800,000. The Derecognised Bills have a maturity from six to twelve months at the end of each of the Relevant Periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the Relevant Periods, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the Relevant Periods or cumulatively.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
			RMB'000
Prepayments	2,264	3,704	21,884
Deposits and other receivables	5,542	1,427	1,919
Balance due from shareholders	—	—	42,684
	<u>7,806</u>	<u>5,131</u>	<u>66,487</u>

Company

	As at
	30 June
	2015
	RMB'000
Other receivables	<u>42,684</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Balance due from shareholders was settled on 7 July 2015.

20. CASH AND CASH EQUIVALENTS

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
			RMB'000
Cash and bank balances	3,446	17,532	19,108
Denominated in:			
RMB	3,443	11,934	18,001
HK\$	—	4,057	402
US\$	—	994	560
Vietnamese dollars ("VND")	3	547	145
	<u>3,446</u>	<u>17,532</u>	<u>19,108</u>

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

The VND is also not freely convertible into other currencies, however, under the State Bank of Vietnam, the Group is permitted to exchange VND for other currencies through banks authorised to conduct foreign exchange business.

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

21. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the transaction date, is as follows:

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
			RMB'000
Within one month	25,058	20,247	24,808
One to three months	258	7,831	7,469
Three months to one year	1,026	11,359	23,354
Over one year	56	6,199	5,970
	<u>26,398</u>	<u>45,636</u>	<u>61,601</u>

The trade payables are unsecured, non-interest-bearing and are normally settled in 30 to 90 days.

22. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
Other payables	4,305	7,702	7,796
Balance due to shareholders	—	—	43,200
Advanced from customers	464	3,860	3,959
	<u>4,769</u>	<u>11,562</u>	<u>54,955</u>

Company

	As at
	30 June
	2015
	RMB'000
Other payables	<u>42,684</u>

Other payables are non-interest-bearing and repayable on demand.

Balance due to shareholders was settled on 10 July 2015.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 30 June 2015		
	Effective	Maturity	RMB'000
	interest rate		
	(%)		
Current		February	
Bank borrowings — secured	5.89	2016	<u>15,000</u>
			<u>15,000</u>
			As at
			30 June
			2015
			RMB'000
Analysed into:			
Bank borrowings payable within one year			<u>15,000</u>

Notes:

- (a) The Group's banking facilities amounting to RMB40,000,000, RMB40,000,000 and RMB40,000,000 for the years ended 31 December 2013 and 2014 and the six-month periods ended 30 June 2015. RMB15,000,000 of banking facilities had been utilised as at the end of 30 June 2015. The Group's banking facilities are secured by:
- (i) mortgages over the Group's investment properties situated in Mainland China, which had an aggregate carrying value of RMB16,265,000, RMB20,106,000 and RMB20,425,000 as at 31 December 2013 and 2014 and 30 June 2015, respectively (note 13);
 - (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB4,426,000, RMB3,282,000 and RMB3,248,000 as at 31 December 2013 and 2014 and 30 June 2015, respectively (note 12);
 - (iii) mortgages over the Group's prepaid lease payments, which had an aggregate carrying value of approximately RMB357,000, RMB183,000 and RMB173,000 as at 31 December 2013 and 2014 and 30 June 2015, respectively (note 14);
- (b) The borrowing is denominated in RMB.

24. DEFERRED TAX

The movement in deferred tax liabilities and assets during the Relevant Periods is as follows:

Deferred tax liabilities

	Fair value adjustments arising from investment properties RMB'000
1 January 2013	2,015
Deferred tax charged to profit or loss during the year (<i>note 10</i>)	79
Deferred tax charged to other comprehensive income during the year	<u>574</u>
Gross deferred tax liabilities at 31 December 2013 and 1 January 2014	<u>2,668</u>
Deferred tax charged to profit or loss during the year (<i>note 10</i>)	96
Deferred tax charged to other comprehensive income during the year	<u>546</u>
Gross deferred tax liabilities at 31 December 2014 and 1 January 2015	<u>3,310</u>
Deferred tax charged to profit or loss during the year (<i>note 10</i>)	<u>80</u>
Gross deferred tax liabilities at 30 June 2015	<u><u>3,390</u></u>

Deferred tax assets

	Provision for accruals RMB'000
1 January 2013	53
Deferred tax credited during the year (<i>note 10</i>)	<u>49</u>
Gross deferred tax assets at 31 December 2013 and 1 January 2014	<u>102</u>
Deferred tax credited during the year (<i>note 10</i>)	<u>352</u>
Gross deferred tax assets at 31 December 2014 and 1 January 2015	<u>454</u>
Deferred tax charged to profit or loss during the period (<i>note 10</i>)	<u>355</u>
Gross deferred tax assets at 30 June 2015	<u><u>809</u></u>

The Group has tax losses arising in Vietnam of RMB35,000, RMB4,000 and RMB103,000 for the years ended 31 December 2013 and 2014 and the six-month periods ended 30 June 2014, respectively, which are available for offsetting against future taxable profits of the companies in which the losses arose and will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at the end of each of the Relevant Periods, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of a subsidiary of the Group established in Mainland China. In the opinion of the Directors, it is not probable that this subsidiary will distribute earnings arising in the Relevant Periods in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised amounted to approximately RMB18,526,000 and RMB23,855,000 as at 31 December 2014 and 30 June 2015.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

There was no authorised and issued capital as at 31 December 2013 and 2014 and 30 June 2014 since the Company had not yet been incorporated by that time.

The Company is a limited liability company incorporated in the Cayman Islands on 25 March 2015. The authorised share capital of the Company was HK\$20,000,000 divided into 2,000,000,000 shares of HK\$0.01 each. On the date of incorporation, 3 ordinary shares of HK\$0.01 each were issued and allotted by the Company to the shareholders.

Pursuant to an ordinary resolution passed on 2 June 2015, a total of 224,999,997 ordinary shares of HK\$0.01 each were issued and allotted by the Company to the shareholders.

26. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods and the six-month period ended 30 June 2014 are presented in the combined statements of changes in equity on pages I-6 to I-7 to the Financial Information.

Company

	Capital reserve	Exchange fluctuation reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2015	—	—	—
Issue of shares	45,694	—	45,694
Exchange differences on translation of foreign operations	—	(55)	(55)
	<u>—</u>	<u>(55)</u>	<u>(55)</u>
As at 30 June 2015	<u>45,694</u>	<u>(55)</u>	<u>45,639</u>

27. PLEDGE OF ASSETS

Details of the Group's general banking facilities, which are secured by the assets of the Group, are included in notes 12, 13 and 14, respectively, to the Financial Information.

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13 to the Financial Information) under operating lease arrangements, with leases negotiated for terms ranging from three to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2013 and 2014 and 30 June 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December		As at 30 June
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	819	2,172	2,179
In the second to fifth years, inclusive	557	7,386	7,229
After five years	—	7,201	6,557
	<u>—</u>	<u>7,201</u>	<u>6,557</u>
	<u>1,376</u>	<u>16,759</u>	<u>15,965</u>

(b) As lessee

The Group leases certain of its office property in Vietnam under operating lease arrangement. Lease for the property is negotiated for a term of one year.

At 31 December 2013 and 2014 and 30 June 2015, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2015
			<i>RMB'000</i>
Within one year	—	—	35

29. COMMITMENTS

The Group had the following commitments at the end of each of the Relevant Periods:

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2015
			<i>RMB'000</i>
Contracted, but not provided for:			
Purchases of items of equipment for projects	12,930	11,354	45,540
Construction of building	—	1,440	331
	<u>12,930</u>	<u>12,794</u>	<u>45,871</u>

30. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the end of each of the Relevant Periods.

31. RELATED PARTY TRANSACTIONS

(a) The Group's balances with the Directors are included in other receivables (note 19 to the Financial Information). All the balances are unsecured, interest-free and repayable on demand. Details are as follows:

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2015
			<i>RMB'000</i>
Mr. Xie Yang	1,572	—	6

- (b) The Group's balances with the shareholders are included in other receivables (note 19 to the Financial Information) and other payables (note 22 to the Financial Information). All the balances are unsecured, interest-free and repayable on demand. Details are as follows:

	As at 30 June 2015
	<i>RMB'000</i>
Balance due from shareholders	42,684
Balance due to shareholders	43,200

Balance due from shareholders and balance due to shareholders was settled on 7 July 2015 and 10 July 2015, respectively.

- (c) Compensation of key management personnel of the Group:

	Six-month period ended 30 June
	<i>RMB'000</i>
Short term employee benefits	<u>217</u>

Further details of Directors' and the chief executive's emoluments are disclosed in note 8 to the Financial Information.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group

Financial assets

	As at 31 December		As at 30 June 2015
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loans and receivables:			
Trade and bills receivables	24,093	70,558	75,622
Financial assets included in prepayments, deposits and other receivables	5,542	1,427	44,603
Cash and bank balances	<u>3,446</u>	<u>17,532</u>	<u>19,108</u>
	<u>33,081</u>	<u>89,517</u>	<u>139,333</u>

Financial liabilities

	As at 31 December		As at
	2013	2014	30 June
	RMB'000	RMB'000	2015
Financial liabilities at amortised cost:			RMB'000
Trade payables	26,398	45,636	61,601
Financial liabilities included in other payables and accruals	4,305	7,702	50,996
Interest-bearing bank borrowings	—	—	15,000
	<u>30,703</u>	<u>53,338</u>	<u>127,597</u>

Company*Financial assets*

	As at
	30 June
	2015
	RMB'000
Loans and receivables:	
Financial assets included in prepayments, deposits and other receivables	<u>42,684</u>

Financial liabilities

	As at
	30 June
	2015
	RMB'000
Financial liabilities at amortised cost:	
Financial liabilities included in other payables and accruals	<u>42,684</u>

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2013 and 2014 and 30 June 2015, the fair values of the Group's financial assets or financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, interest-bearing bank borrowings and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The Directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The monetary assets and transactions of the subsidiaries of the Group are principally denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently has no particular hedging vehicles to hedge its exposure to foreign exchange risk. It is the Group's policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the HK\$, US\$ and VND exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
31 December 2013			
If the RMB weakens against the VND	5	(2)	(1)
If the RMB strengthens against the VND	(5)	2	1
31 December 2014			
If the RMB weakens against the VND	5	(38)	(33)
If the RMB strengthens against the VND	(5)	38	33
If the RMB weakens against the US\$	5	50	42
If the RMB strengthens against the US\$	(5)	(50)	(42)
If the RMB weakens against the HK\$	5	203	172
If the RMB strengthens against the HK\$	(5)	(203)	(172)
30 June 2015			
If the RMB weakens against the VND	5	(10)	(8)
If the RMB strengthens against the VND	(5)	10	8
If the RMB weakens against the US\$	5	28	21
If the RMB strengthens against the US\$	(5)	(28)	(21)
If the RMB weakens against the HK\$	5	2,152	1,614
If the RMB strengthens against the HK\$	(5)	(2,152)	(1,614)

	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in profit before tax RMB '000	Increase/ (decrease) in equity* RMB '000
30 June 2014 (Unaudited)			
If the RMB weakens against the VND	5	(5)	(4)
If the RMB strengthens against the VND	(5)	5	4
If the RMB weakens against the US\$	5	28	23
If the RMB strengthens against the US\$	(5)	(28)	(23)

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise trade and bills receivables, cash and bank balances, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group had certain concentrations of credit risk as 93%, 65% and 41% of the Group's trade and bills receivables were due from the Group's five largest customers for each of the years ended 31 December 2013 and 2014 and the six-month period ended 30 June 2015, respectively.

Liquidity risk

The Group's policies are to regularly monitor the current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in short and longer terms.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments (i.e., principal and interest), was as follows:

Group*31 December 2013*

	On demand	Less than 3 months	3 to less than 12 months	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	26,398	—	—	26,398
Financial liabilities included in other payables and accruals	<u>4,305</u>	<u>—</u>	<u>—</u>	<u>4,305</u>
	<u><u>30,703</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>30,703</u></u>

31 December 2014

	On demand	Less than 3 months	3 to less than 12 months	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	45,636	—	—	45,636
Financial liabilities included in other payables and accruals	<u>7,702</u>	<u>—</u>	<u>—</u>	<u>7,702</u>
	<u><u>53,338</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>53,338</u></u>

30 June 2015

	On demand	Less than 3 months	3 to less than 12 months	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	61,601	—	—	61,601
Financial liabilities included in other payables and accruals	50,996	—	—	50,996
Interest-bearing bank borrowings	<u>—</u>	<u>226</u>	<u>15,505</u>	<u>15,731</u>
	<u><u>112,597</u></u>	<u><u>226</u></u>	<u><u>15,505</u></u>	<u><u>128,328</u></u>

Company

30 June 2015

	On demand	Less than	3 to	Total
	<i>RMB'000</i>	<i>3 months</i>	<i>less than</i>	<i>RMB'000</i>
		<i>RMB'000</i>	<i>12 months</i>	
			<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities included in other payables and accruals	42,684	—	—	42,684

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank borrowings, trade payables and other payables and accruals, less cash and bank balances. Capital represents equity attributable to owners of the Company.

The gearing ratios as at the end of each of the Relevant Periods are as follows:

	As at 31 December		As at
	2013	2014	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank borrowings	—	—	15,000
Trade payables	26,398	45,636	61,601
Financial liabilities included in other payables and accruals	4,305	7,702	50,996
Less: Cash and bank balances	<u>(3,446)</u>	<u>(17,532)</u>	<u>(19,108)</u>
Net debt	<u>27,257</u>	<u>35,806</u>	<u>108,489</u>
Total capital	<u>35,475</u>	<u>63,890</u>	<u>69,239</u>
Total capital and net debt	<u>62,732</u>	<u>99,696</u>	<u>177,728</u>
Gearing ratio	<u>43%</u>	<u>36%</u>	<u>61%</u>

35. EVENTS AFTER THE RELEVANT PERIODS

On 10 July 2015, the companies now comprising the Group completed the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group Structure" in this Prospectus.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2015.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX II	UNAUDITED PRO FORMA FINANCIAL INFORMATION
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The information set out in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, our Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report.

(A) UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS OF OUR GROUP

The statement of unaudited pro forma adjusted combined net tangible assets of our Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Placing on the combined net tangible assets of our Group as if the Placing had taken place on 30 June 2015.

The statement of unaudited pro forma adjusted combined net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of our Group as at 30 June 2015 or any future date following the Placing.

The following statement of unaudited pro forma adjusted combined net tangible assets of our Group is based on the net tangible assets of our Group attributable to owners of our Company as at 30 June 2015 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Combined net tangible assets of our Group attributable to owners of our Company as at 30 June 2015	Estimated net proceeds from the Placing	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>
Based on the Placing				
Price of HK\$0.96 per				
Share	87,799	56,600	144,399	0.48

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The combined net tangible assets of our Group attributable to owners of our Company as at 30 June 2015 is extracted from the Accountants' Report set out in Appendix I to the Prospectus, which is based on the audited combined equity attributable to owners of the Company as at 30 June 2015 of RMB69,239,000 (equivalent to HK\$87,799,000). For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.78861 prevailing on 30 June 2015.
2. The estimated net proceeds from the issue of the Shares pursuant to the Placing are based on 75,000,000 Shares at the Placing Price of HK\$0.96 per Placing Share, respectively, after deduction of the underwriting commissions and fees and other related fees (excluding approximately HK\$7.9 million listing expenses which has been accounted for prior to 30 June 2015) paid or payable by our Company. It does not take into account any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to the Directors to allot and issue or repurchase Shares referred to in the section headed "Share Capital — General Mandate to Issue Shares" or the section headed "Share Capital — General mandate to Repurchase Shares" in this prospectus, as the case may be.
3. The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company does not take into account the effect of any trading result or other transaction of our Group entered into subsequent to 30 June 2015.
4. The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share is arrived at on the basis that 300,000,000 Shares were in issue assuming that the Placing had been completed on 30 June 2015. It does not take into account any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to the Directors to allot and issue or repurchase Shares referred to in the section headed "Share Capital — General Mandate to Issue Shares" or the section headed "Share Capital — General mandate to Repurchase Shares" in this prospectus, as the case may be.

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

30 November 2015

To the Directors of Great Water Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Great Water Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma combined net tangible assets as at 30 June 2015 and related notes as set out on pages II-1 to II-2 of the Prospectus issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in note (A).

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the placing of shares of the Company on the Group’s financial position as at 30 June 2015 as if the transaction had taken place at 30 June 2015. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the period ended 30 June 2015, on which an Accountants’ Report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Reporting Accountant’s responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the 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 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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to *AG7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by 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 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 Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the placing of shares of the Company on unadjusted financial information of the Group as if 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 transaction would have been as presented.

A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The 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 judgement, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a report prepared for the purpose of incorporation in this prospectus received from Roma Appraisals Limited, an independent valuer, in connection with its valuation as at 31 August 2015 of the property.



Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@romagroup.com
<http://www.romagroup.com>

30 November 2015

Great Water Holdings Limited
No. 18 Keyan Road,
Guangzhou Science City,
Guangzhou City,
Guangdong Province,
The PRC

Dear Sir/Madam,

Re: Valuation of an industrial building located at No. 18 Keyan Road, Guangzhou Science City, Guangzhou City, Guangdong Province, The People's Republic of China

In accordance with your instruction for us to value the property held by Great Water Holdings Limited (建禹集團控股有限公司) (the "Company") and/or its subsidiaries (together with the Company referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 31 August 2015 (the "Date of Valuation") for the purpose of incorporation in the prospectus of the Company dated 30 November 2015.

1. BASIS OF VALUATION

Our valuation of the property is our opinion of the market value of the concerned property which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

2. VALUATION METHODOLOGY

We have valued the Part A of property by the direct comparison approach assuming sale of the property in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

In valuing the CIP of property which is currently under construction as at the Date of Valuation, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the Date of Valuation and the remainder of the cost and fees to be expanded to complete the development.

3. TITLE INVESTIGATION

For the property in the PRC, we have been provided with copies of extracts of various title documents relating to the property in the PRC. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and the Group's PRC legal adviser, Zhong Lun Law Firm (中倫律師事務所) regarding the title of the property in the PRC. All documents have been used for reference only.

We have relied on the advice given by the Group and its PRC legal adviser that the Group has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

4. VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the property in the market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of such property.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no allowance has been made for the property to be sold in one lot or to a single purchaser.

5. SOURCE OF INFORMATION

In the course of our valuation, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupation, site/floor areas, ages of buildings and all other relevant matters which can affect the value of the property. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

6. VALUATION CONSIDERATION

We have inspected the exterior and, where possible, the interior of certain property. No structural survey has been made in respect of the property. However, in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have not carried out on-site measurement to verify the site/floor areas of the property under consideration but we have assumed that the site/floor areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Our valuation are prepared in compliance with the requirements set out in Chapter 8 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and in accordance with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

7. REMARKS

Unless otherwise stated, all monetary amounts stated in our valuation are in Renminbi (“RMB”).

Our Valuation Certificate is attached.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Dr. Alan W K Lee
BCom(Property) MFin PhD(BA)
MHKIS RPS(GP) AAPI CPV CPV(Business)
Associate Director

Frank F Wong
BA (Business Admin) MSc (Real Estate)
MRICS Registered Valuer
Associate Director

Note: Dr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 11 years’ valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, European countries and American countries.

Note: Mr. Frank F Wong is a Chartered Surveyor and Registered Valuer who has 16 years’ valuation, transaction advisory and project consultancy of properties experience in Hong Kong and 8 years’ experience in valuation of properties in the PRC as well as relevant experience in the Asia-Pacific region, Australia and Oceania-Papua New Guinea, France, Germany, Poland, United Kingdom, United States, Abu Dhabi (UAE) and Jordan.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 31 August 2015
<p>An industrial building located at No. 18 Keyan Road, Guangzhou Science City, Guangzhou City, Guangdong Province, The PRC</p> <p>中國 廣東省 廣州市 廣州科學城 科研路18號 一幢工業大廈</p>	<p>The property comprises a 5-storey industrial building, completed in 2008, erected on a parcel of land with a site area of about 4,178 sq.m. (“Part A”); while the 6th storey of the property is under construction, scheduled to be completed by late 2015 (“CIP”).</p> <p>The property has a total gross floor area (“GFA”) of about 7,355.82 sq.m..</p> <p>Upon completion, the CIP will have a planned gross floor area of approximately 1,116.2 sq.m.. The construction cost is estimated approximately RMB1,460,000. As advised by the Group, approximately RMB1,139,000 has been made as at the Date of Valuation.</p> <p>The land use rights of the property have been granted for 50 years commencing on 20 November 2006 and expiring on 19 November 2056 for industrial, mining and warehouse uses.</p>	<p>As advised by the Group, portion of the property with a total GFA of about 4,695 sq.m. is subject to various tenancies. Detail please refer to Note 4.</p> <p>The remaining portion of the property is occupied by the Group for ancillary office and research uses.</p>	RMB32,000,000

Notes:

- Pursuant to a Land Use Rights Certificate — 06 Guo Yong No.0560021 (06國用第0560021號) dated 13 December 2006, the land use rights of property with a site area of 4,178 sq.m. is held by Guangzhou Great Water Treatment Technology Co., Ltd (廣州中科建禹水處理技術有限公司) now known as Guangzhou Great Water Environmental Protection Co., Ltd (廣州中科建禹環保有限公司) (“Guangzhou Great Water”), an indirect wholly-owned subsidiary of the Company, expiring on 19 November 2056 for industrial, mining and warehouse uses.
- Pursuant to a Real Estate Title Certificate — Yue Fang Di Quan Zheng Sui Zi No.0550017025 (粵房地權證穗字第0550017025號) dated 6 December 2013, the property with a site area of 4,178 sq.m. and a GFA of 7,355.82 sq.m. is held by Guangzhou Great Water for a term of 50 years commencing on 20 November 2006 for production office and research ancillary uses.
- Pursuant to a Construction Works Planning Permit — Jian Zi Di Sui Kai Gui Jian Zheng (2015) No. 73 (建字第穗開規建證(2015)73號) dated 27 April 2015, the planning permit for the 6th storey of the property with a GFA of 1,116.2 sq.m. has been granted to Guangzhou Great Water for production office and research ancillary uses.

4. Pursuant to 4 tenancy agreements, 5 units of the property with a total GFA of about 4,695 sq.m. are rented to Guangzhou Kiwa Testing Technology Co., Ltd. (廣州琦威檢測技術服務有限公司), Guangzhou Yueneng Power Technology Development Co., Ltd. (廣州粵能電力科技開發有限公司), Guangdong Kelien Environmental Protection Technology Co., Ltd. (廣東科立恩環保科技有限公司) and Guangzhou Huineng Industrial Investment Co., Ltd. (廣州市匯能實業投資有限公司) with the latest expiry date on 31 December 2023 at a total monthly rent RMB187,035 for office use. All tenants are independent third parties.

5. The status of the title and grant of major approvals and licences in accordance with the information provided to us are as follows:

Land Use Rights Certificate	Yes
Real Estate Title Certificate	Yes
Construction Works Planning Permit	Yes

6. Our inspection was performed by Ms. Joanna T.Y. Cheung, B.Sc. (Hons), in February 2015.

7. We have adopted direct market comparison approach and have reasonable base clearly supported by appropriate evidence from market comparable and our latest market research below, the unit rate of the similar property in the subject locality has a unit rate range as follows:

	Unit Rate (RMB per sq.m.)
Industrial Property	4,300 to 4,600

8. Pursuant to a Mortgage Contract of Maximum Amount, a property with a total GFA of approximately 7,355.82 sq.m. under the Real Estate Title Certificate — Yue Fang Di Quan Zheng Hui Zi No. 0550017025 (粵房地權證穗字第0550017025號) is subject to a mortgage in favour of Shanghai Pudong Development Bank of Guangzhou Branch (上海浦東發展銀行廣州分行), as security to guarantee the principals obligation under a contract for a maximum amount of RMB44,450,000 with a security term from 16 July 2013 to 16 July 2016.

9. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:

- a. Guangzhou Great Water is in possession of a proper legal title to the property;
- b. All land premium and other costs of ancillary utility services has been settled in full;
- c. All tenancy agreements are valid, legally binding and has been registered in according with Laws; and
- d. The property is subject to a mortgage, stipulated in Note 8, on the property.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 March 2015 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 24 November 2015 to take effect on the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Financial assistance to purchase shares of the Company or its subsidiaries

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company. There is no provision in the Articles that prohibits the Company from giving financial assistance for the purchase shares of its subsidiaries.

(vi) *Disclosure of interests in contracts with our Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy

managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) *Borrowing powers*

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(x) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(xi) *Register of Directors and Officers*

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(c) Alteration of capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;

- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution — majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph 2(i) below for further details).

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from

the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorized by the board or our Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to

herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of our Company to own shares in our Company and financial assistance to purchase shares of our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a

proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the

Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by our Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of our Company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of our Company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our Company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, our Company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of our Company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of our Company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of our Company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of our Company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of our Company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be

voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the

name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 14 April, 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. Our Company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one

(21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearnan, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015. Our Company's registered office is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our Company established a principal place of business in Hong Kong at 50th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 27 November 2015. Mr. Tsui Kan Chun of Flat D, 6/F, Block 1, Villa Athena, Ma On Shan, New Territories, Hong Kong has been appointed as the authorized representative of our Company for acceptance of service of process and notice in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises the Memorandum and the Articles. A summary of certain relevant parts of its constitution and certain relevant aspects of Cayman Islands company law is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

- (i) As at the date of its incorporation on 25 March 2015, our Company had an authorized share capital of HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each. On the same day, one Share was allotted and issued as fully paid at par to Sharon Pierson, the first subscriber.
- (ii) On 25 March 2015, the first subscriber transferred one issued Share to Oceanic Expert, and additional one Share was allotted and issued, credited as fully paid up, to each of Waterman Global and Great Time, respectively.
- (iii) On 2 June 2015, in consideration of HK\$24,416,400, HK\$17,939,425 and HK\$11,769,175 being paid to our Company by Oceanic Expert, Waterman Global and Great Time respectively, an additional 202,499,997 Shares were allotted and issued by our Company at premium, credited as fully paid: as to 91,349,999 Shares to Oceanic Expert, 67,117,499 Shares to Waterman Global and 44,032,499 Shares to Great Time.
- (iv) On 2 June 2015, at the consideration of our Company further allotting and issuing a total of 22,500,000 Shares to Woody Industrial Limited, our Company acquired 10 shares in Great Water Hong Kong from Woody Industrial Limited.

There is no present intention to issue any of the authorized but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in the section headed "History, Reorganisation and Group Structure" in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of all Shareholders passed on 24 November 2015

Written resolutions were passed by all Shareholders on 24 November 2015 pursuant to which, among other matters:

- (a) our Company approved and adopted the Articles of Association with effect from the Listing Date;
- (b) conditional on (aa) the Listing Department granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the execution and delivery of the Underwriting Agreement on or before the date as mentioned in this prospectus; and (cc) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the Placing was approved and the Directors were authorized to allot and issue of the Placing Shares pursuant to the Placing;
 - (ii) a general unconditional mandate was given to the Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment and issue of Shares in lieu of the whole or part of any dividend on Shares in accordance with the Articles of Association, or under the Placing or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding (aa) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Placing, and (bb) the aggregate nominal value of the share capital of our Company which may be repurchased by our Company pursuant to the authority granted to the Directors as referred to in paragraph (iii) below, such mandate to remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held, and the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying such mandate;
 - (iii) a general unconditional mandate was given to the Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Placing, such mandate to remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general

meeting of our Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held, and the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying such mandate; and

- (iv) the general unconditional mandate mentioned in paragraph (ii) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the general mandate to repurchase mentioned in paragraph (iii) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Placing.

4. Group reorganisation

Our Group underwent the Reorganisation prior to the Listing which involved the following steps:

- (a) establishment of our offshore shareholding structure; and
- (b) restructuring of our PRC operating subsidiaries.

For further details of the Reorganisation, please refer to the section headed “History, Reorganisation and Group Structure” in this prospectus.

5. Changes in share capital of the subsidiaries of our Company

The subsidiaries of our Company are referred to in the Accountants’ Report set out in Appendix I to this prospectus.

In addition to the alterations described in the section headed “History, Reorganisation and Group Structure” in this prospectus, the following alterations in the share capital of each of our Company’s subsidiaries took place within two years immediately preceding the date of this prospectus:

Guangzhou Great Water

On 1 September 2014, Guangzhou Great Water increased its registered capital from RMB30 million to RMB33.333 million which was contributed by Woody Industrial Limited. After the capital increase, each of Mr. Xie, Ms. Gong, Mr. Song and Woody Industrial Limited held 39.6%, 29.83%, 20.57% and 10% of the entire equity interest in Guangzhou Great Water, respectively.

Great Water Hong Kong

On 2 June 2015, in consideration of HK\$54,125,000 being paid to Great Water Hong Kong by our Company in cash, an additional 89 shares were allotted and issued by Great Water Hong Kong to the Company.

Save as disclosed above and in the section headed “History, Reorganisation and Group Structure” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Further information about our Group’s PRC establishment

Our Company has the following subsidiaries established in the PRC, the basic information of which as at the Latest Practicable Date is set out below:

Lintao EP

- (i) Date of Establishment : 28 April 2015
- (ii) Registered Office : No. 18 Keyan Road, Science City,
High-tech Industrial Development Zone, Guangzhou, PRC
- (iii) Corporate nature : Limited liability company
- (iv) Registered capital : RMB48,000,000
- (v) Shareholder(s) : Wholly-owned by Great Water Hong Kong

Hongrun EP

- (i) Date of Establishment : 7 May 2015
- (ii) Registered Office : No. 18 Keyan Road, Science City,
High-tech Industrial Development Zone, Guangzhou, PRC
- (iii) Corporate nature : Limited liability company
- (iv) Registered capital : RMB48,000,000
- (v) Shareholder(s) : Wholly-owned by Lintao EP

Guangzhou Great Water

- (i) Date of Establishment : 2 August 2001
- (ii) Registered Office : No. 18 Keyan Road, Science City,
High-tech Industrial Development Zone, Guangzhou, PRC
- (iii) Corporate nature : Limited liability company
- (iv) Registered capital : RMB33,333,300
- (v) Shareholder(s) : Wholly-owned by Hongrun EP

7. Securities repurchase mandate

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by all Shareholders on 24 November 2015, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorising any repurchase by our Company of our Shares on the GEM or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Placing, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorized by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorized by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

(c) Reasons for repurchases

The Directors believe that it is in the best interest of our Company and the Shareholders for the Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 300,000,000 Shares in issue immediately after the Listing, would result in up to 30,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(e) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made after the Listing. In the event that the Repurchase Mandate is exercised in full, the percentage shareholding of Oceanic Expert would be increased from approximately 30.45% to 33.83% of the issued share capital of the Company. If the percentage shareholding of Oceanic Expert increases by more than 2% from the lowest percentage holding of Oceanic Expert in the 12-month period ending on and inclusive of the date of the relevant repurchase, such increase of interest would give rise to an obligation to make a mandatory general offer under rules 26 and 32 of the Takeovers Code on the part of Oceanic Expert and the parties acting in concert with it. However, the Directors have no present intention to exercise the Repurchase Mandate to such an extent that will trigger a mandatory general offer obligation under the Takeovers Code on the part of Oceanic Expert and its concert parties. The Directors are not aware of any other consequences of the repurchases which would give rise under the Takeovers Code immediately after the Listing.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue may only be implemented with the approval of the Stock Exchange to waive the GEM Listing Rules requirements regarding the public shareholding referred to above. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the GEM Listing Rules.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No connected person (as defined in the GEM Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) capital increase agreement dated 1 September 2014 entered into among Mr. Xie, Ms. Gong, Mr. Song and Woody Industrial Limited for the increase of registered capital of Guangzhou Great Water to RMB33,333,300;
- (b) an equity transfer agreement dated 15 May 2015 entered into among Great Water Hong Kong as purchaser and Mr. Xie, Ms. Gong, Mr. Song and Woody Industrial Limited as vendors for the acquisition of (i) 40.6% equity interests in Lintao EP by Great Water Hong Kong from Mr. Xie at the cash consideration of RMB19,488,000; (ii) 29.83% equity interests in Lintao EP by Great Water Hong Kong from Ms. Gong at the cash consideration of RMB14,318,400; and (iii) 19.57% equity interests in Lintao EP by Great Water Hong Kong from Mr. Song at a cash consideration of RMB9,393,600; and (iv) 10% equity interests in Lintao EP by Great Water Hong Kong from Woody Industrial Limited at a consideration of RMB4,800,000;
- (c) the sale and purchase agreement dated 2 June 2015 entered into between Woody Industrial Limited as vendor and the Company as purchaser in relation to 10% issued shares of Great Water Hong Kong at the consideration of issuance of 22,500,000 Shares to Woody Industrial Limited;
- (d) the Deed of Non-competition;
- (e) the Deed of Indemnity; and
- (f) the Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, we had registered the following trademarks which are material to our business:

Trademark	Class	Place of Registration	Registration Number	Name of Registrant	Period of Validity
	11	The PRC	7303639	Guangzhou Great Water	21 November 2010– 20 November 2020
	40	The PRC	7303710	Guangzhou Great Water	14 October 2010– 13 October 2020
 中科建禹 GREAT WATER	11 and 37	Hong Kong	303259297	Guangzhou Great Water	7 January 2015– 6 January 2025

(b) Patents

(i) As at the Latest Practicable Date, we had registered the following patents that are material to our business:

Title	Type of Patent	Place of Registration	Registration Number	Name of Registrant	Expiry date
Novel composite circulating high-efficiency biological reaction sewage treatment system 一種複合循環高效生物反應污水處理系統	Invention	The PRC	ZL 201310044278.4	Guangzhou Great Water	3 February 2033
Eddy Inter-circulation anaerobic reactor 一種可快速啟動的IC厭氧反應器	Utility	The PRC	ZL 201420485728.3	Guangzhou Great Water	25 August 2024
Efficient thermal desorption repair device for organic contaminated soil 一種有機污染土壤高效熱脫附修復裝置	Utility	The PRC	ZL 201420428854.5	Guangzhou Great Water	30 July 2024

Title	Type of Patent	Place of Registration	Registration Number	Name of Registrant	Expiry date
High-efficiency thermal desorption repairing system for mercury-polluted soil 一種汞污染土壤高效熱脫附修復系統	Utility	The PRC	ZL 201420428820.6	Guangzhou Great Water	30 July 2024
Kitchen waste biochemical continuous processing process 餐廚垃圾生化連續處理工藝	Invention	The PRC	ZL 201210013941.X	Guangzhou Great Water	16 January 2032
Integrated device for liquefying and mechanising kitchen waste 餐廚垃圾液化機械化處理一體化裝置	Invention	The PRC	ZL 201310033021.9	Guangzhou Great Water	27 January 2033

- (ii) As at the Latest Practicable Date, the following patent application has been approved pending receipt of the registration certificate:

Title	Place of Registration	Application Number	Name of Registrant	Application date
Kitchen waste liquefaction double-cycle treatment integrated device 餐廚垃圾液化雙循環處理一體化裝置	The PRC	ZL 201310033019.1	Guangzhou Great Water	28 January 2013

- (iii) As at the Latest Practicable Date, we have filed the following patent application with the relevant authority:

Title	Place of Registration	Application Number	Name of Registrant	Application date
Immobilised dominant bacteria porous packed wastewater treatment process 多孔填料固定優勢菌廢水處理工藝	The PRC	ZL 201510342914.0	Guangzhou Great Water	19 June 2015
Method and system for deep dewatering of sludge 污泥深度脫水系統與方法	The PRC	ZL 201510347116.7	Guangzhou Great Water	19 June 2015

(c) Domain names

As at the Latest Practicable Date, we had registered the following domain name:

Registrant	Domain Name	Registration Date	Expiry Date
Guangzhou Great Water	www.greatwater.com.cn	14 March 2002	14 March 2018

FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS**1. Directors***(a) Disclosure of interests of the Directors*

- (i) Each of Mr. Xie, Ms. Gong and Mr. Song is interested in the Reorganisation and the transactions as contemplated under the material contracts as set out in the section headed “Further information about the business of our Group — Summary of material contracts” in this Appendix V.
- (ii) Save as disclosed in this prospectus, none of the Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

*(b) Particulars of Directors’ service contracts**Executive Directors*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date until terminated by not less than three months’ notice in writing served by either party on the other. Each of the Executive Directors is entitled to their respective basic salaries set out below.

The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

Name	Annual salary <i>(RMB’000)</i>
Mr. XIE Yang	279
Mr. HE Xuan Xi	165

Non-executive Directors

Each of the non-executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other. Each of the non-executive Directors is entitled to their respective basic salaries set out below.

The current basic annual salaries of the non-executive Directors payable under their service contracts are as follows:

Name	Annual salary (HKD'000)
Ms. GONG Lan Lan	120
Mr. SONG Xiao Xing	120

Independent Non-executive Directors

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from the Listing Date, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of their appointment or any time thereafter. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HKD120,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) Directors remuneration

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to the Directors in respect of the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 were RMB421,000, RMB480,000 and RMB241,000, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by the Directors (including the independent non-executive Directors in their respective capacity as Directors) for the six months ending 31 December 2015 are expected to be RMB344,000.

(iii) None of the Directors or any past directors of any member of our Group has been paid any sum of money for each of the two years ended 31 December 2014 and the six months ended 30 June 2015 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December 2014 and the six months ended 30 June 2015.

(d) Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations

Immediately following completion of the Placing, the interests and short positions of the Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, once the Shares are listed, will be as follows:

Name of Shareholder	Capacity/nature of interest <i>(Note 1)</i>	Number of Shares	Approximate percentage of shareholding
Mr. Xie	Interested in controlled corporation <i>(Note 2)</i>	91,350,000(L)	30.45%
Ms. Gong	Interested in controlled corporation <i>(Note 3)</i>	67,117,500(L)	22.37%
Mr. Song	Interested in controlled corporation <i>(Note 4)</i>	44,032,500(L)	14.68%

Notes:

- The letter "L" denotes long position in the Shares.
- Mr. Xie holds the entire issued share capital of Perfect Wave and Perfect Wave holds the entire issued share capital of Oceanic Expert. Therefore, Mr. Xie is deemed or taken to be interested in all the Shares which are beneficially owned by Oceanic Expert.

3. Ms. Gong holds the entire issued share capital of Thinker Global and Thinker Global holds the entire issued share capital of Waterman Global. Therefore, Ms. Gong is deemed or taken to be interested in all the Shares which are beneficially owned by Waterman Global.
4. Mr. Song holds the entire issued share capital of Topman Ventures and Topman Ventures holds the entire issued share capital of Great Time. Therefore, Mr. Song is deemed or taken to be interested in all the Shares which are beneficially owned by Great Time.

2. Interest disclosable under the SFO and Substantial Shareholders

So far as is known to the Directors, immediately following completion of the Placing, other than a Director or chief executive of our Company whose interests are disclosed under the section headed “Further Information about Directors and Shareholders — Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations” above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, 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 any other members of our Group:

Name of Shareholder	Capacity/nature of interest	Number of Shares <i>(Note 1)</i>	Approximate percentage of shareholding
Oceanic Expert	Beneficial owner	91,350,000(L)	30.45%
Perfect Wave	Interested in controlled corporation <i>(Note 2)</i>	91,350,000(L)	30.45%
Waterman Global	Beneficial owner	67,117,500(L)	22.37%
Thinker Global	Interested in controlled corporation <i>(Note 3)</i>	67,117,500(L)	22.37%
Great Time	Beneficial owner	44,032,500(L)	14.68%
Topman Ventures	Interested in controlled corporation <i>(Note 4)</i>	44,032,500(L)	14.68%
Woody Industrial Limited	Beneficial owner <i>(Note 5)</i>	22,500,000(L)	7.5%
Acute Capital Investments Limited	Interested in controlled corporation <i>(Note 5)</i>	22,500,000(L)	7.5%

Name of Shareholder	Capacity/nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. Yang Chen Kuo	Interested in controlled corporation (Note 5)	22,500,000(L)	7.5%

Notes:

1. The letter "L" denotes long position in the Shares.
2. Mr. Xie holds the entire issued share capital of Perfect Wave and Perfect Wave holds the entire issued share capital of Oceanic Expert. Therefore, Mr. Xie is deemed or taken to be interested in all the Shares which are beneficially owned by Oceanic Expert.
3. Ms. Gong holds the entire issued share capital of Thinker Global and Thinker Global holds the entire issued share capital of Waterman Global. Therefore, Ms. Gong is deemed or taken to be interested in all the Shares which are beneficially owned by Waterman Global.
4. Mr. Song holds the entire issued share capital of Topman Ventures and Topman Ventures holds the entire issued share capital of Great Time. Therefore, Mr. Song is deemed or taken to be interested in all the Shares which are beneficially owned by Great Time.
5. Mr. Yang Chen Kuo hold the entire issued capital of Acute Capital Investments Limited and Acute Capital Investments Limited holds the entire issued share capital of Woody Industrial Limited. Therefore, Mr. Yang Chen Kuo is deemed or taken to be interested in all the shares which are beneficially owned by Woody Industrial Limited.

3. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be taken up or acquired under the Placing, the Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the Placing will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be 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 any other member of our Group;
- (b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be

required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, once the Shares are listed;

- (c) none of the Directors nor any of the parties listed in the section headed “Other information — 8. Qualifications of experts” below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Placing Shares either in his own name or in the name of a nominee;
- (d) none of the Directors nor any of the parties listed in the section headed “Other information — 8. Qualifications of experts” below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group; and
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Other information — 8. Qualifications of experts” below:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

OTHER INFORMATION

1. Indemnity

Our Controlling Shareholders (collectively, the “Indemnifiers”) have, under a Deed of Indemnity as referred to in the paragraph headed “Further information about the business of our Group — 1. Summary of material contracts” in this appendix, given joint and several indemnities to our Company (for ourselves and as trustee for and on behalf of our subsidiaries) in connection with, among other things, any taxation (including estate duty) falling on any member of our Group resulting from any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the date on which the Placing becomes unconditional.

The Indemnifiers will, however, not be liable under the Deed of Indemnity to the extent that, among others:

- specific provision, reserve or allowance has been made for such liability in the audited combined accounts of our Company or any member of our Group for the Track Record Period;
- the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Placing becomes unconditional; or

- the taxation liability arises in the ordinary course of business of any member of our Group after the date on which the Placing becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against our Company or any of our subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Company.

3. Preliminary expenses

The preliminary expenses of our Company are estimated to be HK\$100,000 and are payable by our Company.

4. Promoters

Our Company has no promoter for the purposes of the GEM Listing Rules.

5. Sponsor's fees or commissions received

In connection with the Listing, the Sole Sponsor will receive a sponsor's fee of HK\$4.0 million and will be reimbursed for its expenses.

Save as disclosed in the section headed "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this prospectus.

6. Application for listing of Shares

The Sponsor has made an application on behalf of our Company to the Listing Department of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

7. Independence of the Sole Sponsor

Neither the Sole Sponsor nor any of its close associates has accrued any material benefit as a result of the successful outcome of the Placing, other than the following:

- (a) by way of sponsorship, financial advisory and documentation fee paid and to be paid to the Sole Sponsor for acting as the sole sponsor of the Listing;

- (b) by way of commission to be paid to Shenwan Hongyuan for acting as the Sole Bookrunner, the Sole Lead Manager and the Underwriter to the Placing pursuant to the Underwriting Agreement;
- (c) certain close associates of the Sole Sponsor whose usual and ordinary courses of business involve trading of and dealing in securities may derive commissions from the trading of and dealing in securities of our Company or provide margin financing in connection thereto or purchase or sell securities of our Company or hold securities of our Company for investment purposes after its Listing on GEM; and
- (d) by way of compliance advisory fee to be paid to Shenwan Hongyuan as our Company's compliance adviser pursuant to the requirements under Rule 6A.19 of the GEM Listing Rules.

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Listing, any interest in any class of securities of our Company or any of its subsidiaries. None of the directors and employees of the Sole Sponsor has any directorship in our Company or any other companies comprising our Group. The Sole Sponsor is therefore independent from our Group under Rule 6A.07 of the GEM Listing Rules.

8. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

Name	Qualification
Shenwan Hongyuan	a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Zhong Lun Law Firm	PRC legal advisers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
S&B Law Company Limited	Vietnamese legal advisers
Roma Appraisals Limited	Property valuer

9. Consents of experts

Each of Shenwan Hongyuan, Ernst & Young, Zhong Lun Law Firm, Conyers Dill & Pearman, S&B Law Company Limited and Roma Appraisals Limited has given and has not withdrawn its written consent to the issue of this prospectus with copies of its reports, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

10. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Taxation of holders of Shares*(a) Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) The Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, the Directors or the other parties involved in the Placing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

12. Miscellaneous*(a) Save as disclosed herein:**(i) within two years preceding the date of this prospectus:*

(aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

- (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (b) The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2015 (being the date to which the latest combined financial statements of our Group were made up).
- (c) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

13. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the (a) written consents referred to in the section headed “Other Information — Consents of experts” in Appendix V to this prospectus; and (b) copies of the material contracts referred to in the section headed “Further Information about the Business of Our Group — Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Nixon Peabody CWL in association with Hylands Law Firm at 50th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (1) the Memorandum;
- (2) the Articles;
- (3) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (4) the audited financial statements of our Group for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015;
- (5) the letter on unaudited pro forma financial information issued by Ernst & Young, Certified Public Accountants, Hong Kong, the text of which is set out in Appendix II to this prospectus;
- (6) the property valuation report relating to the property interests of our Group prepared by Roma Appraisals Limited, the text of which is set out in Appendix III to this prospectus;
- (7) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;
- (8) the Companies Law;
- (9) the material contracts referred to in the section headed “Further Information about the Business of Our Group — Summary of material contracts” in Appendix V to this prospectus;
- (10) the service contracts referred to in the section headed “Further Information about Directors and Shareholders — Directors — Particulars of Director’s service contracts” in Appendix V to this prospectus;

- (11) the written consents referred to in the section headed “Other Information — Consents of experts” in Appendix V to this prospectus;
- (12) the legal opinions prepared by Zhong Lun Law Firm, our legal adviser as to PRC laws, in respect of certain aspects of the PRC laws applicable to our Group; and
- (13) the legal opinions prepared by S&B Law Company Limited, our legal advisers as to Vietnamese laws, in respect of certain aspects of Vietnamese laws applicable to our Group.

GREAT WATER HOLDINGS LIMITED
建禹集團控股有限公司