



GREAT WATER

GREAT WATER HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8196

First Quarterly Report 2018



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FINANCIAL HIGHLIGHTS

For the three months ended 31 March 2018

- Based on the unaudited condensed consolidated results of the Group for the three months ended 31 March 2018 (the “**Period**”), the Group’s revenue for the Period decreased to approximately RMB48,704,000, representing a decrease of approximately 15.8% as compared to approximately RMB57,872,000 for the corresponding period in 2017.
- During the Period, the Group’s total gross profit decreased to approximately RMB13,091,000, representing a decrease of approximately 16.3% as compared to approximately RMB15,644,000 for the corresponding period in 2017.
- During the Period, the Group’s profit attributable to ordinary equity holders increased to approximately RMB6,378,000, representing an increase of approximately 8.4% as compared to approximately RMB5,885,000 for the corresponding period in 2017.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2018.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2018

UNAUDITED FIRST QUARTERLY RESULTS

The board of directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the Group) for the three months ended 31 March 2018 together with the comparative unaudited figures for the corresponding period of 2017 as follows:

	Notes	For the three months ended 31 March	
		2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
REVENUE	4	48,704	57,872
Cost of Sales		(35,613)	(42,228)
Gross profit		13,091	15,644
Other income and gains	4	3,517	552
Selling and distribution expenses		(1,237)	(690)
Administrative expenses		(6,783)	(7,541)
Finance costs		(765)	(479)
PROFIT BEFORE TAX		7,823	7,486
Income tax expense	5	(1,508)	(1,601)
PROFIT FOR THE PERIOD		6,315	5,885
Attributable to:			
Owners of the parent		6,378	5,885
Non-controlling interests		(63)	–
		6,315	5,885
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	RMB0.021	RMB0.020

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2018

	For the three months ended 31 March	
	2018 <i>RMB'000</i> Unaudited	2017 <i>RMB'000</i> Unaudited
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange difference on translation of foreign operations	(1,947)	(496)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(1,947)	(496)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	–	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(1,947)	(496)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	4,368	5,389
Attributable to:		
Owners of the parent	4,431	5,389
Non-controlling interests	(63)	–
	4,368	5,389

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2018

	Share capital RMB'000	Share premium account RMB'000	Merger reserve RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2017 (audited)	2,397	98,818	(13,830)	9,134	8,122	4,957	67,607	177,205	(2)	177,203
Profit for the period	-	-	-	-	-	-	5,885	5,885	-	5,885
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	(496)	-	(496)	-	(496)
Total comprehensive income for the period	-	-	-	-	-	(496)	5,885	5,389	-	5,389
At 31 March 2017 (unaudited)	2,397	98,818	(13,830)	9,134	8,122	4,461	73,492	182,594	(2)	182,592
At 1 January 2018 (audited)	2,397	98,818	(13,830)	9,134	13,192	1,388	104,349	215,448	(64)	215,384
Profit for the period	-	-	-	-	-	-	6,378	6,378	(63)	6,315
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	(1,947)	-	(1,947)	-	(1,947)
Total comprehensive income for the period	-	-	-	-	-	(1,947)	6,378	4,431	(63)	4,368
At 31 March 2018 (unaudited)	2,397	98,818	(13,830)	9,134	13,192	(559)	110,727	219,879	(127)	219,752

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended 31 March 2018

1. GENERAL

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 address of the Company is 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 Suite 2001, 20/F, Chinachem Johnston Plaza, 186 Johnston Road, Wan Chai, Hong Kong.

The Company is an investment holding company. During the Period, the Group is principally engaged in the environmental protection business, such as wastewater treatment and soil remediation, through the design, construction, operation and maintenance service of related facilities and the trading of related equipment.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance (Cap. 622 of the laws of Hong Kong). In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the GEM Listing Rules.

The condensed consolidated financial statements are unaudited, but have been reviewed by the audit committee (the “**Audit Committee**”) of the Company.

3. 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, procurement and construction of 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 (“**Construction Projects**”) segment represents construction projects other than EPC Projects;
- (c) the equipment projects (“**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 other projects (“**Others**”) segment comprises, principally, the Group’s operation and maintenance services in which an enterprise of the Group is retained to operate and maintain water or wastewater treatment facilities for a certain period for certain operation and maintenance fees on a monthly or quarterly basis.

Management of the Company 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, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit before tax except that 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended 31 March 2018

3. OPERATING SEGMENT INFORMATION *(continued)*

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.

Period ended 31 March 2018 (unaudited)	EPC Projects RMB'000	Construction Projects RMB'000	Equipment Projects RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	28,129	–	19,729	846	48,704
Segment results	3,785	–	9,025	281	13,091
<i>Reconciliation:</i>					
Interest income					31
Unallocated gains					3,486
Corporate and other unallocated expenses					(8,020)
Finance costs					(765)
Profit before tax					7,823
Other segment information:					
Depreciation and amortisation					746

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended 31 March 2018

3. OPERATING SEGMENT INFORMATION *(continued)*

Period ended 31 March 2017 (unaudited)	EPC Projects RMB'000	Construction Projects RMB'000	Equipment Projects RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	11,944	22,676	22,146	1,106	57,872
Segment results					
<i>Reconciliation:</i>					
Interest income					28
Unallocated gains					524
Corporate and other unallocated expenses					(8,231)
Finance costs					(479)
Profit before tax					7,486
Other segment information:					
Depreciation and amortisation					232

Geographical information

Revenue from external customers

	For the three months ended 31 March	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Mainland China	48,704	57,335
Vietnam	–	537
	48,704	57,872

The revenue information above is based on the locations of the customers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended 31 March 2018

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; 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:

	For the three months ended 31 March	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Revenue		
Income from construction contracting and related business	28,129	34,620
Sales of goods	19,729	22,146
Rendering of maintenance services	846	1,106
	48,704	57,872
Other income		
Bank interest income	31	28
Rental income	3,386	364
Government grants	100	160
	3,517	552
	52,221	58,424

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended 31 March 2018

5. INCOME TAX

The statutory rate of Hong Kong profits tax was 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group has no assessable profits arising in Hong Kong for the three months ended 31 March 2018 (2017: Nil).

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, Guangzhou Great Water Environmental Protection Co., Ltd, 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 period ended 31 March 2018 and 2017.

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 20% on the taxable income.

	For the three months ended 31 March	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Current — Elsewhere other than Hong Kong	1,508	1,601
Deferred	—	—
Total tax charge for the period	1,508	1,601

6. DIVIDENDS

The Directors did not recommend payment of an interim dividend for the three months ended 31 March 2018 (2017: Nil).

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

The calculation of the basic earnings per share for the three months ended 31 March 2018 is based on the profit for the period attributable to ordinary equity holders of RMB6,378,000 (2017: RMB5,885,000), and the weighted average number of ordinary shares in issue of 300,000,000 (2017: 300,000,000).

No adjustment has been made to the basic earnings per share amounts presented for the period ended 31 March 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of wastewater and drinking water treatment engineering services in the People's Republic of China (the "PRC"). The main business of the Group is the provision of engineering services for wastewater and drinking water treatment facilities. The Group acts either as the contractor, who is responsible for the whole project from launch to final operational management ("EPC Projects"), or as the equipment contractor, who is responsible for providing technical advice and equipment procurement services for the project ("Equipment Projects"). The Group is also engaged in other environmental protection projects ("Other Environmental Protection Projects"), provision of operating and maintenance services ("O&M Projects") for the customers in connection with the management of waste water treatment and drinking water treatment facilities, as well as consultation services in relation to the improvement of wastewater and drinking water treatment facilities of various constructions.

In the first quarter of 2018, the Group kept pace with the growth trend of the environmental protection industry in China so as to proactively expand the environmental protection engineering services and operation businesses.

For the three months ended 31 March 2018, the revenue of the Group decreased by approximately RMB9,168,000, or 15.8% to approximately RMB48,704,000 as compared to the corresponding period in 2017. The decrease in revenue was primarily attributable to the recognition of approximately RMB28,129,000 in revenue from EPC Projects, and approximately RMB19,729,000 in revenue from Equipment Projects for the first quarter of 2018. In comparison, approximately RMB11,944,000 in revenue from EPC Projects, approximately RMB22,676,000 in revenue from construction projects ("Construction Projects"), and approximately RMB22,146,000 in revenue from Equipment Projects was recognized in the corresponding period in 2017.

Profit attributable to ordinary equity holders for the three months ended 31 March 2018 amounted to approximately RMB6,378,000, comparable with that for the corresponding period in 2017 with an increase of approximately RMB493,000 or 8.4%.

As at 31 March 2018, save for O&M Projects, the Group had the following uncompleted projects on hand: (i) 3 EPC Projects; and (ii) 9 Equipment Projects, with an aggregate contract value of approximately RMB93.3 million. The Directors expect that the abovementioned uncompleted projects on hand will be fully completed by the mid of 2019.

OUTLOOK

In view of the PRC government's further emphasis on environmental protection, realization of the concept of "clear waters and lush mountains are invaluable assets", and the actual needs of "upgrading and reconstructing" environmental protection projects in the PRC, the Group believes that, the number of environmental protection facility projects with renewed requirements which demands a higher standard as well as that of integrated and centralized projects related to environmental protection treatment are expected to increase substantially, thereby promoting more environmental protection technologies with higher efficiency and more energy saving features. On the other hand, integration of upstream and downstream segments in the environmental protection industry, in-depth cooperation and mutual assistance among corporations in different sectors under the environmental protection industry and stronger cooperation between suppliers and clients for environmental protection services are the future development trends of the environmental protection industry. In addition, environmental protection service providers vary in terms of operating capability such as technology level and management level, resulting in the inability of certain environmental protection service providers to meet the current market demand, for which the environmental protection industry has to be self-regulated in order to work in a more orderly and sustainable way.

In the first quarter of 2018, the Group, being a specialist providing environmental protection services, continues to consolidate its market position in its current business sectors in the southern part of China. In the meantime, the Group also eagerly develops its markets in both the central and eastern part of China, by making efforts in the Group's traditional businesses such as wastewater treatment, water supply and soil remediation for industrial use and civil services, so that it can provide services of high quality and better efficiency to more sizeable clients.

MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, the Group actively reacts to the “One Belt, One Road” policy introduced by the PRC government and strives to develop overseas markets. Given that the recent overseas investment cases of PRC enterprises and also the Group’s existing construction experience on overseas environmental protection projects, by means of providing high quality and more efficient services to sizable clients, the Group strives to become a preferred environmental protection service provider of those clients when they are making their overseas investments.

Furthermore, the Group is committing more resources to research and development for the continuous enhancement of its existing environmental protection technologies and the research and development of more advanced environmental protection technologies to meet market demand in the future. The Group is of the view that the Group’s sustainable competitiveness in the environmental protection industry would be maintained by continuous investment on research and development, and its achievements on newer innovations.

In conclusion, the Group considers that, consolidating the Group’s existing environmental protection businesses, exploring a broader market region and diversifying into other environmental protection operations by various means to provide environmental protection services of higher quality and better efficiency to clients would be the main direction of the Group’s future development.

FINANCIAL REVIEW

Operating revenue

For the three months ended 31 March 2018, the Group’s operating revenue amounted to approximately RMB48,704,000, representing a decrease of approximately 15.8% or RMB9,168,000 compared to the corresponding period in 2017.

EPC Projects and Construction Projects

For the EPC Projects, the Group assumes the role of main contractor in charge of overall project management of constructing a treatment plant from launch to operation for a predetermined contract amount. As an EPC Project contractor, the Group provides engineering design of the treatment facilities, procure necessary raw materials and appoint sub-contractors to construct the facilities. The Group also engages in construction projects related to other environmental protection sectors (such as soil remediation project and flue gas treatment project, involving the provision of engineering and procurement services for the project owner).

— *Revenue relating to EPC Projects*

For the three months ended 31 March 2018, the revenue generated from EPC Projects relating to wastewater and drinking water treatment projects under construction and related business was approximately RMB28,129,000 (2017: approximately RMB11,944,000), representing an increase of approximately 135.5% or RMB16,185,000 over the corresponding period in 2017. The increase in revenue from EPC Projects in the first quarter of 2018 was primarily attributable to the recognition of revenue of approximately RMB26,211,000 in revenue from a large-size EPC Project. The rest of the revenue, in the amount of approximately RMB1,918,000, was from another small-size EPC Project. In contrast, the revenue from EPC Projects for the corresponding period last year was derived from one large-size EPC Project in the amount of approximately RMB10,163,000 and another two small-size EPC Projects in the amount of approximately RMB1,781,000.

— *Revenue relating to Construction Projects*

For the three months ended 31 March 2018, there was no revenue generated from the Construction Projects (2017: approximately RMB22,676,000) as there was no Construction Projects under construction being carried forward from the end of 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Equipment Projects

For the Equipment Projects, the Group mainly provides procurement services to a pre-defined section of a project. In determining the equipment and machinery best suited for the project operator's requirements, the Group's technical team often needs to work closely with the customer in evaluating and selecting different equipment options before the procurement team comes into play.

For the three months ended 31 March 2018, the revenue generated from the Equipment Projects amounted to approximately RMB19,729,000 (2017: approximately RMB22,146,000, representing a decrease of approximately 10.9% or RMB2,417,000 compared to the corresponding period in 2017. The decrease in revenue from EPC Projects in the first quarter of 2018 was primarily attributable to the recognition of revenue of approximately RMB13,958,000 in revenue from five large-size Equipment Projects. The rest of the revenue, in the amount of approximately RMB5,771,000, was from three small-size Equipment Projects. In contrast, the revenue from Equipment Projects for the corresponding period last year was derived from one large-size EPC Project in the amount of approximately RMB21,880,000 and another two small-size EPC Projects in the amount of approximately RMB266,000.

Others

The revenue generated from other environmental protection projects included revenue attributable to O&M Projects and technical advisory services. As at 31 March 2018, the Group had one wastewater treatment O&M Project and five drinking water treatment O&M Projects on hand.

For the three months ended 31 March 2018, the revenue generated from the rendering of maintenance services amounted to approximately RMB846,000 (2017: approximately RMB1,106,000), representing a decrease of approximately 23.5% or RMB260,000 as compared to the corresponding period in 2017. The decrease was primarily attributable to (i) a technical advisory project in the first quarter of 2018 with revenue contribution of approximately RMB94,000 as compared to approximately RMB253,000 in the corresponding period in 2017; and (ii) O&M projects which contributed approximately RMB752,000 in revenue in the first quarter of 2018, representing a decrease of approximately RMB100,000 as compared to the corresponding period of last year.

Other income and gains

For the three months ended 31 March 2018, other income and gains amounted to approximately RMB3,517,000 (2017: approximately RMB552,000), representing an increase of approximately 537.1% or approximately RMB2,965,000 as compared to the corresponding period in 2017. The increase was attributable to a rental income(net of cost) from construction equipment of approximately RMB3,023,000 compared to nil in the corresponding period of 2017.

Cost of sales

For the three months ended 31 March 2018, the cost of sales of the Group amounted to approximately RMB35,613,000 (2017: approximately RMB42,228,000), representing a decrease of approximately 15.7% or approximately RMB6,615,000 compared to the corresponding period in 2017.

The decrease in cost of sales was mainly due to decreased operating revenue. The subcontracting costs decreased to approximately RMB153,000 for the three months ended 31 March 2018 from approximately RMB26,261,000 for the corresponding period in 2017. The material costs increased to approximately RMB34,785,000 for the three months ended 31 March 2018 from approximately RMB15,203,000 for the corresponding period in 2017, representing an increase of approximately 128.8% or approximately RMB19,582,000 over the corresponding period in 2017.

Gross profit

For the three months ended 31 March 2018, the Group achieved gross profit of approximately RMB13,091,000 (2017: approximately RMB15,644,000), representing a decrease of approximately 16.3% or approximately RMB2,553,000 as compared to the corresponding period in 2017. The decrease in gross profit of the Group was mainly due to the fact that the revenue in the first quarter of 2018 decreased by approximately 15.8% as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

For the three months ended 31 March 2018, the selling and distribution expenses of the Group amounted to approximately RMB1,237,000 (2017: approximately RMB690,000), representing an increase of approximately 79.3% or approximately RMB547,000 compared to the corresponding period in 2017. The increase in the selling and distribution expenses was mainly attributed to (i) the increase in salaries and employee benefit of approximately RMB336,000 due to some staff reallocation from various departments to sales department in 2018 and those cost used to be recorded in administrative expenses; and (ii) the increase in transportation cost of approximately RMB248,000 due to exporting equipments for Equipment Projects in Vietnam.

Administrative expenses

For the three months ended 31 March 2018, the administrative expenses of the Group amounted to approximately RMB6,783,000 (2017: approximately RMB7,541,000), representing a decrease of approximately 10.1% or approximately RMB758,000 compared to the corresponding period in 2017. The decrease in the administrative expenses was mainly attributed to decrease of staff bonus being paid of approximately RMB1,271,000 and some staff reallocation from various departments to sales department for approximately RMB336,000 as mentioned above. Such decrease was partly set off by increased in exchange losses of approximately RMB950,000.

Profit for the Period

For the three months ended 31 March 2018, the profit for the Period amounted to approximately RMB6,315,000 (2017: RMB5,737,000), representing an increase of approximately RMB430,000 or 7.3% compared to the corresponding period in 2017.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2018 (2017: nil), in order to cope with the future business development of the Group.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a good corporate governance standard, with the chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to shareholders and creditors of the Group. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and their respective responsibilities should be clearly defined in writing. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie Yang, the chairman of the Board, an executive Director and the chief executive officer of the Company, is responsible for the Group's overall strategic planning and management of its business. The 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 the Group and the balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board comprised of two executive Directors (including Mr. Xie Yang), two non-executive Directors and three independent non-executive Directors during the Period and therefore has sufficient independent elements in its composition. The Board is in the process of looking for a potential candidate from the market to take up the role of chief executive officer of the Company in order to comply with the CG Code. Save for code provision A.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual, the Board is satisfied that the Company had complied with the CG Code for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the Period, none of the Directors had material interests, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

COMPETING INTERESTS

None of the Directors or the controlling shareholders of the Company or any of their respective close associates (as defined under the GEM Listing Rules) had any interest in a business that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE GROUP AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2018, the interests and short positions of the Directors and chief executive of the Company in the ordinary shares (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the Shares

Name of director	Capacity	Number of Shares (Note 1)	Approximate percentage of the total number of Shares in issue
Mr. Xie Yang ^(Note 2)	Interest in controlled corporation	91,350,000 (L)	30.45%
Ms. Gong Lan Lan ^(Note 3)	Interest in controlled corporation	67,117,500 (L)	22.37%
Mr. Song Xiao Xing ^(Note 4)	Interest in controlled corporation	44,032,500 (L)	14.68%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. The letter “L” denotes a long position.
2. These Shares are owned by Oceanic Expert Investments Limited which is wholly owned by Perfect Wave Holdings Limited, the 100% interests of which is in turn beneficially owned by Mr. Xie Yang. Accordingly, Mr. Xie Yang is taken or deemed to be interested in the 91,350,000 Shares held by Oceanic Expert Investments Limited by virtue of the SFO.
3. These Shares are owned by Waterman Global Limited which is wholly owned by The Thinker Global Limited, the 100% interests of which is in turn beneficially owned by Ms. Gong Lan Lan. Accordingly, Ms. Gong Lan Lan is taken or deemed to be interested in the 67,117,500 Shares held by Waterman Global Limited by virtue of the SFO.
4. These Shares are owned by Great Time Ventures Limited which is wholly owned by Topman Ventures Limited, the 100% interests of which is in turn beneficially owned by Mr. Song Xiao Xing. Accordingly, Mr. Song Xiao Xing is taken or deemed to be interested in the 44,032,500 Shares held by Great Time Ventures Limited by virtue of the SFO.

Save as disclosed above, as at 31 March 2018, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

THE INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND THE INTERESTS AND SHORT POSITION OF OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES

As at 31 March 2018, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive of the Company) in the Shares or underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the Shares

Name	Capacity	Number of Shares held (Note 1)	Approximate percentage of interest
Oceanic Expert Investments Limited ^(Note 2)	Beneficial owner	91,350,000 (L)	30.45%
Perfect Wave Holdings Limited ^(Note 2)	Interest in controlled corporation	91,350,000 (L)	30.45%
Waterman Global Limited ^(Note 3)	Beneficial owner	67,117,500 (L)	22.37%
The Thinker Global Limited ^(Note 3)	Interest in controlled corporation	67,117,500 (L)	22.37%
Great Time Ventures Limited ^(Note 4)	Beneficial owner	44,032,500 (L)	14.68%

MANAGEMENT DISCUSSION AND ANALYSIS

Name	Capacity	Number of Shares held (Note 1)	Approximate percentage of interest
Topman Ventures Limited ^(Note 4)	Interest in controlled corporation	44,032,500 (L)	14.68%
Woody Industrial Limited ^(Note 5)	Beneficial owner	17,724,000 (L)	5.91%
Acute Capital Investments Limited ^(Note 5)	Interest in controlled corporation	17,724,000 (L)	5.91%
Mr. Yang Chen Kuo ^(Note 5)	Interest in controlled corporation	17,724,000 (L)	5.91%

Notes:

1. The letter "L" denotes a long position.
2. Mr. Xie Yang beneficially owns the entire issued share capital of Perfect Wave Holdings Limited which in turn wholly owns Oceanic Expert Investments Limited which held 91,350,000 Shares.
3. Ms. Gong Lan Lan beneficially owns the entire issued share capital of The Thinker Global Limited which in turn wholly owns Waterman Global Limited which held 67,117,500 Shares.
4. Mr. Song Xiao Xing beneficially owns the entire issued share capital of Topman Ventures Limited which in turn wholly owns Great Time Ventures Limited which held 44,032,500 Shares.
5. Mr. Yang Chen Kuo beneficially owns the entire issued share capital of Acute Capital Investments Limited which in turn wholly owns Woody Industrial Limited which held 17,724,000 Shares.

Save as disclosed above, as at 31 March 2018, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or Chief Executive of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF FINANCIAL STATEMENT

During the Period, the audit committee of the Company (“**Audit Committee**”) comprised three independent non-executive Directors, namely, Mr. Tse Chi Wai, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Tse Chi Wai is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the three months ended 31 March 2018 and this report, and is of the view that such results and the quarterly report complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

By order of the Board
Great Water Holdings Limited
XIE YANG
Chairman

Guangzhou, the PRC, 9 May 2018

As at the date of this report, the executive Directors are Mr. XIE Yang and Mr. HE Xuan Xi; the non-executive Directors are Ms. GONG Lan Lan and Mr. SONG Xiao Xing and the independent non-executive Directors are Ms. BAI Shuang, Mr. HA Cheng Yong and Mr. TSE Chi Wai.