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Post Hearing Informetion Pack of

TIL ENVIRO LIMITED
達力環保有限公司

(Incorporated in the Cayman Islands with limited liability)

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TIL ENVIRO LIMITED
達力環保有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED]	**:**	**[REDACTED] Shares**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to re-allocation)**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to re-allocation)**
[REDACTED]	**:**	**Not more than HK$[REDACTED] per [REDACTED] and not less than HK$[REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars subject to refund)**
Nominal Value	**:**	**HK$0.01 per Share**
[REDACTED]	**:**	**[REDACTED]**

Sponsor

紅日資本有限公司
RED SUN CAPITAL LIMITED

Financial Adviser

Opus Capital Limited 創富融資有限公司

[REDACTED]

[REDACTED]

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A copy of this document, having attached thereto the documents specified in "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix V to this document, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this document or any other documents referred to above.

The [REDACTED] is expected to be determined by agreement between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on the [REDACTED], which is expected to be on or about [REDACTED] or such later date as the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company may agree. The [REDACTED] will be not more than HK$[REDACTED] and is currently expected to be not less than HK$[REDACTED], unless otherwise announced. Subscribers for the [REDACTED] are required to pay, on subscription, the [REDACTED] for each [REDACTED] together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to any necessary rounding.

The [REDACTED] (for themselves and on behalf of the [REDACTED]) may, with our Company's consent, reduce the number of [REDACTED] being offered under the [REDACTED] and/or reduce the indicative [REDACTED] range stated in this document at any time prior to the [REDACTED]. In such a case, notices of such reduction will be published on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.tilenviro.com** as soon as practicable but in any event not later than the [REDACTED]. Further details are set out in "Structure and Conditions of the [REDACTED]" in this document.

If, for any reason, the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company are unable to agree on the [REDACTED] on or before the [REDACTED], the [REDACTED] will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this document, including the risk factors set out in "Risk Factors" in this document.

Pursuant to the termination provisions contained in the [REDACTED], the [REDACTED] (for themselves and on behalf of the [REDACTED]) has the right in certain circumstances to terminate the obligations of the [REDACTED] under the [REDACTED] [REDACTED] at any time prior to 8:00 a.m. (Hong Kong time) on the [REDACTED] (such date is currently expected to be [REDACTED]). Further details of these termination provisions are set out in "Underwriting" in this document. It is important that you refer to that section for further details.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with Regulation S of the U.S. Securities Act.

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

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IMPORTANT NOTICE TO INVESTORS

This document is issued by our Company solely in connection with the [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the [REDACTED] offered by this document pursuant to the [REDACTED]. This document 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 on the information contained in this document and the [REDACTED] to make your investment decision. We, the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the [REDACTED], have not authorised anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorised by us, the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the [REDACTED]. The contents of our Company's website at ***www.tilenviro.com*** *do not form part of this document.*

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SUMMARY

This summary aims to give you an overview of the information contained in this document. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in "Risk Factors" in this document. You should read that section carefully before you decide to invest in the [REDACTED].

OUR BUSINESS AND BUSINESS MODEL

Overview

We are a wastewater treatment service provider operating and managing four wastewater treatment facilities located in Yinchuan, being the capital city of Ningxia, the PRC. According to the CIC Report, we are the leading and the largest wastewater treatment services provider in Yinchuan and Ningxia in terms of both (i) our total designed wastewater treatment capacity which accounted for approximately 65.3% and 37.5% of the total designed wastewater treatment capacity in Yinchuan and Ningxia, respectively, as of 31 December 2017; and (ii) our total wastewater treatment volume which accounted for approximately 78.0% and 43.4% of the total wastewater treatment volume in Yinchuan and Ningxia, respectively, during the year ended 31 December 2017.

Pursuant to the Concession Agreement, we are granted an exclusive right for 30 years since September 2011 to September 2041 to operate and manage our four wastewater treatment facilities in Yinchuan i.e., Yinchuan Wastewater Treatment Plant 1, Yinchuan Wastewater Treatment Plant 2, Yinchuan Wastewater Treatment Plant 3 and Yinchuan Wastewater Treatment Plant 4, to provide wastewater treatment services to the communities and industries located in Yinchuan. We receive wastewater treatment service fees from the local government of Yinchuan which is calculated in accordance with formulae stipulated in the Concession Agreement, which is based on tariff per cubic meter multiplied by a daily guaranteed basic volume of wastewater assigned to each of our plants and a rate of 60% of the tariff applicable multiplied by any additional volume in excess of the basic volume treated by our facilities.

We also undertake the upgrading and expansion of our wastewater treatment facilities to achieve higher wastewater discharge standards and to increase our designed treatment capacities. In return, we are entitled to an increment in the wastewater treatment service fees payable to us by upward revisions in the tariff and basic volume for the calculation of our wastewater treatment service fees upon (i) completion of such upgrading and expansion works; (ii) the auditing of the construction cost incurred by us; and (iii) the final approval by our customer, i.e., Yinchuan Construction Bureau.

In December 2011 when we took over the Wastewater Treatment Plants which were already in operation, the total wastewater treatment capacity was 300,000 cubic metres per day and the discharge standard of all our four plants were Class II. According to Concession Agreement and feasibility study reports approved by the local governmental authorities of Yinchuan, we are obliged to undertake upgrading works for our four Wastewater Treatment Plants from Class II to Class IA, and expansion works to expand the designed treatment capacity of each of Plant 2 and Plant 3 from 50,000 cubic metres per day to 100,000 cubic metres per day, and to expand the designed treatment capacity of Plant 4 from 100,000 cubic meters per day to 200,000 cubic meters per day. In addition, the discharge standard for the additional 100,000 cubic meters capacity for Plant 4 shall be Quasi Surface Water Quality Standard Class IV (準四類水標準) which is a standard higher than Class IA in the National Wastewater Discharge Standards and was prescribed by the local government of Yinchuan as being a discharge standard close to Surface Water Quality Standard Class IV where the treated water can be suitable for water replenishment at scenery locations, street flushing and landscaping.

As at the Latest Practicable Date, the discharge standard of our Plant 2, Plant 3 and Plant 4 have been upgraded to Class IA and our total designed capacity has been expanded to 375,000 cubic meters per day, and we expect to complete all the remaining contemplated upgrading and expansion works as aforesaid by the end of 2020. Upon completion of all of the contemplated upgrading and expansion works, our aggregate designed treatment capacity will be 500,000 cubic metres per day. For details of the latest status of our contemplated upgrading and expansion works, please refer to "Business — Our Existing Wastewater Treatment Facilities" in this document.

As our Group recognises revenue from wastewater treatment construction services for our upgrading and expansion works, but typically do not receive any actual payments in return for that until the operational phase of these upgraded and/or expanded parts, our revenue may decline after 2020 after all of the existing scheduled upgrading and expansion works for our Wastewater Treatment Plants have been completed.

Our TOT project model

We operate and manage our Wastewater Treatment Plants on a "Transfer — Operate — Transfer" (TOT) basis for a term of 30 years pursuant to the Concession Agreement entered into with the local government of Yinchuan in September 2011. Under a TOT project model, we took over the operations of our Wastewater Treatment Plants from the local government and operate and manage the facilities to provide wastewater treatment services during the concession period and we are required to return the operations and facilities to the local government upon the expiry of the concession period.

Project Financing

Under the Concession Agreement, we are responsible to provide funding for the operations and maintenance as well as the upgrading and expansion works of our wastewater treatment facilities. The initial consideration for acquiring the concession right and taking over the underlying assets of the facilities pursuant to the TOT Transfer Agreement was RMB810.0 million (equivalent to approximately HK$1,012.5 million), where RMB526.5 million (equivalent to approximately HK$658.1 million) was funded by a bank loan and the remaining was funded by shareholder's equity. Such bank loan is a 16-year term loan with a fixed repayment schedule, out of which approximately RMB471.4 million (equivalent to approximately HK$589.3 million) was still outstanding as at 31 August 2018 and our Group was still in the course of repaying such outstanding bank loan in accordance with the terms of the relevant banking facility agreement. As at the Latest Practicable Date, our daily operating costs are mainly funded by our internally generated funds and a working capital bank loan facility of RMB17.5 million (equivalent to approximately HK$21.9 million) with a term from 1 January 2017 to 30 June 2019.

Since the takeover in December 2011 and up to 31 December 2017, we had incurred an aggregate amount of approximately HK$310.7 million in the contemplated upgrading and expansion works, with approximately HK$161.8 million funded by shareholder's equity and approximately HK$148.9 million funded by bank loans. As at the Latest Practicable Date, we had four project loans to partially finance the construction costs of the contemplated upgrading and expansion works with (i) fixed terms ranging from two years to 10 years; and (ii) respective maturity dates ranging from 2019 to 2027. All of our bank loans are secured by (i) the receivables of our wastewater treatment service fees; and (ii) the land use rights over the lands parcels on which our Wastewater Treatment Plants are located.

As at 30 April 2018, we estimated that the construction cost required to complete the remaining contemplated upgrading and expansion works is approximately RMB468.0 million (equivalent to approximately HK$585.0 million) (inclusive of the estimated construction cost for the upgrading to Quasi Surface Water Standard Class IV (準四類水標準) for the additional capacity of 100,000 cubic meters to be built at Plant 4). As at 31 August 2018, being the latest practicable date for determining our indebtedness, our total indebtedness amounted to approximately HK$1,348.8 million.

For further details of our project financing, please see "Business — Project Financing" in this document.

Supply of recycled water as ancillary business

As an ancillary business, we also supply recycled water treated by our treatment plants to end-users in Yinchuan which includes but not limited to a power plant and a public institution in Yinchuan in charge of public area landscaping. For our sale of recycled water, we generally receive supply fees calculated based on the volume of water supplied by us multiplied by the unit price agreed in the supply agreements entered into with our customers. The unit price can be determined by negotiation and agreement between both parties with reference to local government's guidelines on recycled water pricing published from time to time. The recycled water is delivered from our facilities to the designated locations of our customers through pipeline network built and maintained by the local government and our customers of recycled water. For further details of our supply of recycled water, please refer to "Business — Supply of recycled water" in this document.

OUR REVENUE

In accordance with HK(IFRIC) 12 Service Concession Arrangements, we recognise revenue (i) for the upgrading and expansion of our existing wastewater treatment facilities; (ii) for our wastewater treatment operation, whereby revenue is recognised for the provision of wastewater treatment operation services; and (iii) as finance income from service concession arrangement. As set out in the Accountant's Report of Appendix I to this document, key assumptions in calculating the value of the concession rights under the Concession Agreement include, but not limited to, (i) the construction margin (10.0%); (ii) the operating margin (39.0%); (iii) interest rate (6.75%); and (iv) inflation of operating costs (3.0%).

The initial consideration for the acquisition of the concession right and underlying assets of our Wastewater Treatment Plants under the Concession Agreement is accounted for as a financial asset and an intangible asset or a combination of both, as appropriate. A financial asset (receivables under service concession arrangement) is recognised to the extent that we have an unconditional right to receive tariff payments based on the basic volumes stipulated under the Concession Agreement. An intangible asset (operating concession) is recognised to the extent that the right to charge users or local governments is depended upon the usage or amount of services rendered, which is not an unconditional right to receive cash. Significant judgement is exercised in determining the segregation of the consideration for a service concession arrangement between the financial asset component and the intangible assets component at initial recognition. Major estimates and assumptions used in the valuation process include the interest rate, the operating margin and the construction margin, etc.

During the upgrading and expansion of our Wastewater Treatment Plants, we recognised non-cash revenue in respect of our wastewater treatment construction services. However, we did not receive any payment in cash from the relevant authorities directly for our wastewater treatment construction services when the relevant revenue was recognised. After the completion of the upgrading and expansion of our Wastewater Treatment Plants, the actual cash inflow from wastewater treatment construction services would be received in the form of cash tariff payments over the remaining concession period. As a result, there would be a mismatch between the recognition of revenue and the underlying cash flows for our wastewater treatment construction services.

The wastewater treatment construction services revenue for our upgrading and expansion services under the Concession Agreement is calculated as the total construction costs plus a reasonable profit margin advised by JLL, based on prevailing market rate applicable to similar construction services. Revenue from wastewater treatment construction services is recognised over time by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Our revenue for wastewater treatment operation services comprised of non-guaranteed and guaranteed portions. Non-guaranteed portion of wastewater treatment operation services revenue is measured based on the non-guaranteed wastewater treatment volume (being the excess of wastewater treatment volume (i.e. the additional volume) rendered in a period over the guaranteed wastewater treatment volume (i.e. the basic volume) in the same period as set out in the concession agreements) at the relevant wastewater treatment tariff, net of any relevant taxes. Guaranteed wastewater treatment operation revenue is measured based on the guaranteed wastewater treatment volume and wastewater treatment operating costs plus a reasonable profit margin advised by JLL, with reference to prevailing market rate applicable to similar wastewater operating service.

Finance income from service concession arrangement represents imputed interest income, which is recognised from time to time on receivables under service concession arrangement on an accrual basis using the effective interest method. The relevant interest rate at 6.75% used for our TOT model, was advised by JLL with reference to the yield from the PRC government bonds, local municipal bonds as well as city investment bonds (城投債).

When we receive tariff payment during the concession period, we apportion such payment into (i) a repayment of our receivables under service concession arrangements; (ii) finance income on receivables under service concession arrangements; (iii) revenue for wastewater treatment construction services; and (iv) revenue for wastewater treatment operation services.

For details on revenue recognition of our Group, please refer to "Financial information — Critical accounting policies estimates and judgement — Service concession arrangement" in this document.

OUR COMPETITIVE STRENGTHS

We believe that our success is attributable to, among other things, the following competitive strengths of ours:

- We possess extensive experiences and proven track record in the provision of wastewater treatment services in Yinchuan and in upgrading and expanding the treatment capacities of our Wastewater Treatment Plants in Yinchuan;
- We are well-positioned to benefit from the PRC Government's increasing focus and policy support on environmental protection as well as population growth in urban areas;
- We receive our service fees based on a contractually guaranteed basic volume of wastewater and a fixed rate of tariff; and
- We have an experienced management team with strong technical skills and an in-depth understanding and knowledge in managing our operations.

For details of our competitive strengths, please refer to "Business — Competitive strengths" in this document.

OUR STRATEGIES

Our principal business strategies include:

- Continue to complete the contemplated upgrading and expansion works for our existing wastewater treatment facilities;
- Strengthen our market position in the PRC through undertaking new wastewater treatment projects when the opportunities arise; and
- Continue to enhance the quality control system by establishing a new wastewater inflow and outflow remote real-time monitoring system.

For details of our strategies, please refer to "Business — Business strategies" in this document.

HIGHLIGHTS OF RISK FACTORS

Our business operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorised into (i) risks relating to our business and industry; (ii) risks relating to business operations in the PRC; and (iii) risks relating to the [REDACTED]. The following are highlights of some of our risks which our Directors consider to be material:

- Our Group may not be able to renew our Concession Agreement upon its expiry and may not be able to secure new projects to sustain or grow our business (see pages [30 to 31] of this document);
- Our Group's largest customer accounted for approximately 97.0%, 97.0%, 98.2% and 98.0% of our revenue during each of the financial years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively, and in the event that our Concession Agreement is early terminated, it could have a material adverse impact on our business, financial condition and operational results (see pages [32 to 33] of this document);
- We recognise revenue from our wastewater treatment construction services for the upgrading and expansion works, but typically do not receive any actual payments in return for that until the operational phase of these upgraded and/or expanded parts, which may adversely affect our results of operations and liquidity, and our revenue may decline after 2020 after all of the upgrading and expansion works have been completed (see pages [33 to 34] of this document);
- Our Group may not be granted revisions to our tariffs and/or basic volumes in a timely manner and we cannot guarantee that such revisions could fully cover the increase in our actual costs incurred in day-to-day operations as well as in our contemplated upgrading and expansion works which are capital intensive in nature (see pages [38 to 39] of this document).

For further details of the risk highlighted above and other risk factors applicable to our Group, please refer to section headed "Risk Factors" in this document.

CUSTOMERS AND SUPPLIERS

During the Track Record Period, our largest customer was Yinchuan Construction Bureau and, our revenue attributable to our largest customer amounted to approximately HK$243.1 million, HK$201.2 million, HK$359.8 million and HK$135.5 million, representing approximately 97.0%, 97.0%, 98.2% and 98.0%, respectively of our total revenue. Our remaining top five customers other than Yinchuan Construction Bureau were mainly customers of our supply of recycled water. The revenue attributable to our top five customers for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018 was approximately HK$248.9 million, HK$205.8 million, HK$365.0 million and HK$137.6 million, respectively. The percentage of our total revenue attributable to our top five customers for the same periods was approximately 99.3%, 99.3%, 99.6% and 99.4%, respectively.

During the Track Record Period, our principal suppliers were construction contractors, design institutes and supervision agencies engaged by us to carry out contemplated upgrading and expansion works, suppliers of chemicals used in our wastewater treatment processes and suppliers of materials for equipment maintenance and replacements.

Our largest supplier during the Track Record Period was a construction contractor engaged for undertaking our contemplated upgrading and expansion works. Our purchases from our largest supplier for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018 were approximately HK$46.0 million, HK$25.4 million, HK$69.0 million and HK$32.1 million, representing approximately 43.3%, 39.7%, 33.8% and 47.2% of our total purchases, respectively. Our purchases from our top five suppliers for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018 were approximately HK$84.2 million, HK$50.1 million, HK$111.4 million and HK$42.8 million, representing approximately 79.2%, 78.3%, 54.5% and 63.0% of our total purchases, respectively.

For procurement of materials and equipment not related to our upgrading and expansion works, we have established a centralized internal procurement policy for the selection of suppliers from our internal list of approved suppliers from which we invite quotations for our selection. For procurement of materials and equipment and construction-related services within the scope of our contemplated upgrading and expansion works, we are required to go through tender processes led by a tender committee comprising Independent Third Party representatives from the local government and our own representative(s).

NET CURRENT LIABILITIES AS AT 30 APRIL 2018

As at 31 December 2015, 2016 and 2017, we had net current liabilities of approximately HK$391.2 million, HK$265.4 million and HK$293.4 million. The key components of our current liabilities as at such dates included amount due to Taliworks Corporation Berhad/LGB (HK), trade and other payables, current portion of long-term borrowings as well as short-term borrowings. The key components of our current assets as at such dates included receivable under service concession arrangement, cash and cash equivalents, financial assets at fair value through profit or loss, trade and other receivables as well as amounts due from fellow subsidiaries.

As at 30 April 2018, we had net current liabilities of approximately HK$176.0 million, representing a decrease of approximately HK$117.4 million, as compared to that as at 31 December 2017. Such movement was mainly attributable to (i) the increase in trade and other receivables of approximately HK$41.0 million; (ii) the decrease in financial assets at fair value through profit or loss of approximately HK$50.0 million; (iii) the increase in cash and cash equivalents of approximately HK$69.6 million; (iv) the increase in receivable under service concession arrangement of approximately HK$23.0 million; and (v) the decrease of trade and other payables of approximately HK$20.4 million. Our net current liability position as at 30 April 2018, which mainly consisted of (i) current liabilities of approximately HK$772.5 million, including amount due to LGB (HK) of approximately HK$602.3 million, trade and other payables of approximately HK$113.7 million; and (ii) current assets of approximately HK$596.4 million, including receivable under service concession arrangement of approximately HK$274.4 million, trade and other receivables of approximately HK$77.1 million. The net current liabilities recorded as at 30 April 2018 was mainly attributable to the amount due to LGB (HK) of approximately HK$602.3 million, representing approximately 78.0% of total current liabilities. As our Group was a private group prior to [REDACTED] and during the Track Record Period, our operations were primarily funded by a combination of shareholder's equity, amount due to our shareholder and external debt financing. The balance due to LGB (HK), being one of our Controlling Shareholders, has been capitalised before the Latest Practicable Date, upon our capitalisation of such balances our Group's current liabilities would improve. Please refer to "Financial information — Net current liabilities" in this document for further details.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), Sparkle Century will directly hold [REDACTED] of the issued share capital of our Company. As at the Latest Practicable Date, Sparkle Century was wholly-owned by LGB (HK), which was in turn owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, respectively. During the Track Record Period and up to the Latest Practicable Date, LGB (Malaysia) was owned as to 30.40%, 30.40%, 10.43%, 10.43%, 10.43%, 5.41% and 2.50% by Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling, respectively. Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling and Ms. Lim Wang Ling are siblings. Ms. Geh Sok Lan is their mother. As they hold the equity interest in our Company indirectly through various intermediate companies (including LGB (Malaysia), LGB (HK) and Sparkle Century), LGB (Malaysia), Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan, Ms. Lim Wang Ling, LGB (HK) and Sparkle Century will together form a group of our Controlling Shareholders within the meaning of Listing Rules.

SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

The table below presents summary of certain key financial information of our Group for the periods indicated and should be read in conjunction with Appendix I to this document:

Selected information from the combined income statements

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue	250,521	207,419	366,381	63,816	138,373
Gross profit	113,361	111,969	132,784	36,957	57,501
Profit before taxation	60,794	62,729	80,559	19,456	29,362
Profit for the year/period	45,053	45,555	58,900	13,784	19,388

For details of our revenue breakdown, please refer to "Financial information — Management's discussion and analysis of results of operations".

During the Track Record Period, our revenue was primarily derived from three major revenue components, namely (i) wastewater treatment construction services, which amounted to approximately HK$91.2 million, HK$32.6 million, HK$197.2 million and HK$61.5 million for the year ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively; (ii) wastewater treatment operation services, which amounted to approximately HK$73.2 million, HK$87.6 million, HK$76.6 million and HK$41.5 million for the year ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively; and (iii) finance income from service concession arrangement, which amounted to approximately HK$78.7 million, HK$80.9 million, HK$86.0 million and HK$32.5 million for the year ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively. Our gross profit margin of approximately 45.3% for the year ended 31 December 2015 increased to approximately 54.0% for the year ended 31 December 2016, decreased to approximately 36.2% and 41.6% for the year ended 31 December 2017 for the four months ended 30 April 2018, respectively. Our net profit margin of approximately 18.0% for the year ended 31 December 2015 increased to approximately 22.0% for the year ended 31 December 2016 and decreased to approximately 16.1% and 14.0% for the year ended 31 December 2017 and for the four months ended 30 April 2018, respectively. The fluctuations to our revenue, gross profit margins and net profit margins during the Track Record Period were primarily attributable to variations in our revenue mix, in particular from the above-mentioned three major revenue components, which contributed over 90% of our revenue during the Track Record Period, as well as construction costs and operation costs incurred.

As our Group carried out planned upgrading and expansion works to our Wastewater Treatment Plants from time to time during the Track Record Period primarily to increase our designed treatment capacities and/or to achieve higher wastewater discharge standards, the portion of revenue contributed by our major revenue components fluctuated from year to year. In view of the above and that the construction margin is notably lower than the operating margin, for a given financial year during the Track Record Period whereby the revenue contribution from our wastewater treatment construction services was significantly higher than the revenue contribution from our wastewater treatment operation services, generally our gross profit margin derived from the Wastewater Treatment Plants and our net profit margin would be comparatively lower as a result.

The following table sets forth the volume of wastewater treated by each of our Wastewater Treatment Plants during the Track Record Period:

Wastewater Treatment Plants:	Average volume of wastewater treated per day *(Note 1)* Year ended 31 December			Average utilisation during the three years ended 31 December 2017 *(Note 2)*	Average volume of wastewater treated during the four months ended 30 April 2018 *(Note 1)*	Average utilisation during the four months ended 30 April 2018 *(Note 2)*	Tariff as at the Latest Practicable Date	Construction costs incurred during the Track Record Period	Expected increase in treatment capacity upon completion of expansion works
	2015 *(thousand m^3/day)*	2016 *(thousand m^3/day)*	2017 *(thousand m^3/day)*		*(thousand m^3/day)*		*(RMB/cubic metre)*	*(approximate, RMB in million)*	*(cubic metres/day)*
— Plant 1	98	93	90	Approximately 93.6%	87	Approximately 86.6%	Interim tariff: RMB2.0 *(Note 4)*	79.9	Not applicable (no expansion works required as at the Latest Practicable Date)
— Plant 2	61	66	67	Prior to Phase I of Plant 2 expansion: approximately 128.7% *(Note 3)*; and after completion of Phase I of Plant 2 expansion: approximately 96.8%	79	Approximately 105.9% *(Note 3)*	Interim tariff: RMB2.0 *(Note 4)*	92.3	From 75,000 to 100,000
— Plant 3	55/65	66	69	Prior to expansion: approximately 110.6% *(Note 3)*; and after completion of expansion: approximately 67.1%	60	Approximately 60.1%	Tariff: RMB2.489	63.8	From 50,000 to 100,000 (already completed in July 2015)
— Plant 4	112	108	104	Approximately 107.8% *(Note 3)*	98	Approximately 97.7%	Interim tariff: RMB2.0 *(Note 4)*	55.6	From 100,000 to 200,000

Notes:

(1) rounded to the nearest thousand cubic metres

(2) Utilisation rate of our wastewater treatment facilities was calculated by dividing the actual volume of wastewater treated by the total designed capacity taking into consideration the expansion in capacity completed from time to time.

(3) For Plant 2 and Plant 3, their respective average utilisation rates during the three years ended 31 December 2017 prior to the completion of Phase I of Plant 2 expansion and the expansion works for Plant 3, respectively, were higher than 100%, which was mainly due to the supply of wastewater to Plant 2 and Plant 3 at that time being higher than their respective original designed capacity before the relevant expansion works, while there is an extra buffer in the construction design of each of our facilities intended to be used as a backup capacity to reduce downtime and allowed us to cope with some unpredictable increase in the amount of wastewater supplied to our facilities from time to time beyond 100% of the designed capacity. Upon completion of the Phase I of Plant 2 expansion and the expansion works for Plant 3, their respective average utilisation rates had resumed to below 100%. Thereafter during the four months ended 30 April 2018, due to the higher supply of wastewater to Plant 2 which sometimes exceeded its designed capacity, the average utilisation rate for Plant 2 during such period had gone up to more than 100%. It is expected that the utilisation rate for Plant 2 will resume to below 100% after the completion of its Phase II expansion.

The average utilisation rate for Plant 4 during the three years ended 31 December 2017 also exceeded 100% due to the same reason as stated above for Plant 2 and Plant 3, and it is expected that the utilisation rate for Plant 4 will decrease to below 100% upon the completion of its contemplated expansion works.

For further details of the utilisation rates of each of our Wastewater Treatment Plants during the Track Record Period, please refer to the summary table and the footnotes in "Business — Our Existing Wastewater Treatment Facilities" in this document.

(4) For Plant 2 and Plant 4, we have been granted an interim tariff of RMB2.0 per cubic meter effective from December 2017 and January 2018 respectively until the approval by our customer of the respective tariff revision for Plant 2 and Plant 4 in relation to the completion of their relevant upgrading and expansion works. For Plant 1, we have been granted an interim tariff of RMB2.0 per cubic meter effective from July 2018 after its upgrading to discharge standard Class 1A entered the testing and commissioning stage.

Selected information from the combined statements of financial position

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current assets	255,796	400,822	509,405	596,415
Current liabilities	646,998	666,216	802,828	772,458
Net current liabilities	391,202	265,384	293,423	176,043
Non-current assets	1,214,950	1,083,315	1,265,636	1,292,519
Non-current liabilities	751,058	737,588	790,727	846,657
Net assets	72,690	80,333	181,486	269,819

Selected information from the combined statements of cash flows

	Year ended 31 December			Four months ended 30 April	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Net cash flow from/(used in) operating activities	48,646	41,046	35,709	(271)	(35,542)
Net cash flow (used in)/from investing activities	(83,456)	18,178	(4,872)	125	51,932
Net cash flow from/(used in) financing activities	11,596	(14,259)	16,979	(9,896)	47,859
Cash and cash equivalents at end of year	37,972	80,214	130,141	69,005	199,745

For the four months ended 30 April 2018, our Group had net cash used in operating activities of approximately HK$35.5 million, which was largely attributable to the combined effect of (i) operating profit before working capital changes of approximately HK$41.1 million, comprised primarily of profit before income tax of approximately HK$29.4 million added back finance costs of approximately HK$14.9 million; and (ii) the net working capital outflow of approximately HK$76.7 million which was primarily attributable to (a) the increase in trade and other receivables of approximately HK$44.1 million which was largely related to the increase in trade receivables of approximately HK$39.8 million as our Group recorded a higher portion of trade receivables aged between 31 to 90 days, based on invoice dates, mainly as a result of longer settlement period from Yinchuan Construction Bureau; and (b) the increase in receivables under service concession arrangement of approximately HK$38.9 million as a result of the tariff payments received by our Group being less that the revenue recognised from our wastewater treatment construction services, our wastewater treatment operation services and finance income from service concession arrangement during the relevant period.

Please refer to "Financial Information — Period to period comparison of results of operations" in this document for details of fluctuation to our financial results.

KEY FINANCIAL RATIOS

	As at/for the year ended 31 December			As at/for the four months ended 30 April
	2015	2016	2017	2018
Current ratio	0.4	0.6	0.6	0.8
Quick ratio	0.4	0.6	0.6	0.8
Gearing ratio *(Note 1)*	94.4%	93.6%	87.2%	81.7%
Return on equity	62.0%	56.7%	32.5%	7.2%
Return on total assets	3.1%	3.1%	3.3%	1.0%
Interest coverage	2.2	2.5	2.9	3.0
Gross profit margin	45.3%	54.0%	36.2%	41.6%
Net profit margin	18.0%	22.0%	16.1%	14.0%

Note:

(1) Gearing ratio is calculated by net debt divided by total capital at the end of the relevant year. Net debt is calculated as total borrowings plus amounts due to related companies less cash and cash equivalents at the end of the relevant year. Total capital is calculated as total equity plus net debt.

For details of our key financial ratios, please refer to "Financial Information — Key financial ratios" in this document.

RECENT DEVELOPMENT AFTER THE TRACK RECORD PERIOD

Based on our Group's unaudited management accounts made up to the period of the eight months ended 31 August 2018, the unaudited monthly revenue for the eight months ended 31 August 2018 was higher than the monthly average revenue for the year ended 31 December 2017, which was mainly attributable to more revenue derived from wastewater treatment operation services as the upgrading and expansion works for Phase I of Yinchuan Wastewater Treatment Plant 2 and Yinchuan Wastewater Treatment Plant 4 were completed in December 2017.

Subsequent to the Track Record Period, our ongoing and planned upgrading and expansion works include (i) Plant 1 upgrading works involving the improvement in wastewater treatment standard from Class II to Class IA, which was in the testing and commissioning stage as at the Latest Practicable Date and is expected to be completed by the end of 2018; (ii) Phase II of Plant 2 expansion works, which is expected to commence in the second half of 2018 and completed by the end of 2019 whereby the designed capacity will be further expanded to 100,000 cubic metres per day; and (iii) the physical construction works for the expansion of Plant 4 for an additional treatment capacity of 100,000 cubic meters per day with treated water discharge meeting Quasi Surface Water Quality Standard Class IV (準四類水標準), which is expected to commence in the second half of 2018 and completed by the end of 2020. For details of our contemplated upgrading and expansion works and the latest status as at the Latest Practicable Date, please refer to the summary table set out under paragraph headed "Business — Our Existing Wastewater Treatment Facilities" in this document.

The total indebtedness of our Group as at 31 August 2018, being the latest practicable date for determining the amount of indebtedness in this document, amounted to approximately HK$1,348.8 million. Further details of our Group's indebtedness statement as at 31 December 2015, 2016 and 2017 and 31 August 2018, are set out in "Financial Information — Indebtedness" in this document.

Our Directors confirm that, up to the date of this document, there has been no material adverse change, other than the impact of the [REDACTED] expenses, in our financial, operational or trading position since 30 April 2018, being the end of the period reported on in the Accountant's Report in Appendix I to this document. Our estimated [REDACTED] expenses are approximately HK$[REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range), of which approximately HK$[REDACTED] million is directly attributable to the issue of the [REDACTED] to the public and is to be accounted for as a deduction from equity. The remaining [REDACTED] is expected to be charged to our income statement during the year ending 31 December 2018.

[REDACTED] EXPENSES

For the three years ended 31 December 2015, 2016 and 2017, we did not record any [REDACTED] expenses. The estimated total [REDACTED] expenses to be borne by our Group, which primarily represent professional fees for our [REDACTED] is non-recurrent in nature, has been estimated to be approximately HK$[REDACTED] (assuming an [REDACTED] of HK$[REDACTED]) per [REDACTED], being the mid-point of the indicative [REDACTED] range), of which approximately HK$[REDACTED] is directly attributable to the issue of the [REDACTED] to the public and is to be accounted for as a deduction from equity. For the four months ended 30 April 2018, we recorded [REDACTED] expenses of approximately HK$[REDACTED] which was charged to our combined income statements. The remaining HK$[REDACTED] is expected to be charged to our profit or loss during remaining period of 2018. Our Board wishes to inform our Shareholders and potential investors that our Group's financial performance and results of operations for the year ending 31 December 2018 will be affected by the estimated expenses in relation to the [REDACTED]. It should be noted that the [REDACTED] expenses are current estimate and for references only.

USE OF PROCEEDS AND REASONS FOR THE [REDACTED]

We estimate that the aggregate net proceeds from the [REDACTED], after deducting [REDACTED] and estimated expenses paid and payable by our Company in connection thereto, to be approximately HK$[REDACTED], assuming the [REDACTED] of HK$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] range of HK$[REDACTED] to HK$[REDACTED] per Share. We intend to apply such net proceeds in the following manner:

- Approximately HK$[REDACTED] or approximately [REDACTED] of the net proceeds will be applied towards funding the remaining contemplated upgrading and expansion works;
- Approximately HK$[REDACTED] or approximately [REDACTED] of the net proceeds will be applied towards funding our identification and evaluation of new wastewater treatment projects in Ningxia and/or in other regions in the PRC should the opportunities arise, which would mainly involve engaging an Independent Third Party consultancy firm to perform feasibility studies on the potential project(s);
- Approximately HK$[REDACTED] or [REDACTED] of the net proceeds will be applied towards establishing and future upgrading of our own centralised monitoring system providing real-time data on the wastewater quality and wastewater treatment processes; and
- Approximately HK$[REDACTED] or [REDACTED] of the net proceeds will be applied as general working capital and for general corporate purposes.

The primary reason for the [REDACTED] are to allow us to raise funds for us (i) to continue to carry out the contemplated upgrading and expansion works of our existing facilities so as to aim for higher tariffs and basic volumes and hence to receive higher wastewater treatment service fees; (ii) to identify and evaluate suitable new projects in the PRC for the purpose of growing our business by operating additional wastewater treatment facilities; and (iii) to upgrade our wastewater treatment real-time monitoring system to facilitate our management to gain real-time comprehensive data in our wastewater treatment processes and remote access to such data so that our operations can be managed more effectively without geographical restrictions.

For more detailed discussions of our Group's genuine funding needs, the commercial benefits expected to be brought to our Group by the [REDACTED] and the [REDACTED] and the factors taken into account by our Directors in choosing equity financing through the [REDACTED], please refer to "Future Plans and Use of Proceeds" in this document.

Impact of the remaining upgrading and expansion works on our profit margins and operations going forward

As at the Latest Practicable Date and barring unforeseen circumstances, partly attributable to our ongoing and planned upgrading and expansion works, our Directors expect that (i) the gross and net profit margins of our Group (excluding [REDACTED] expenses) for the year ending 31 December 2018 to be in line with the gross and net profit margins range recorded by our Group for the year ended 31 December 2017; and (ii) the carrying out of the remaining upgrading and expansion works is not expected to result in material disruptions to our Group's operations going forward. Having considered the above and that it is common for our gross and net profit margins to vary year-on-year attributable to the different composition of our revenue and cost of sales for a given year, our Directors are of the view that the gross and net profit margins of our Group for the year ending 31 December 2018 will not be materially impacted as a result of our provision of construction services for the upgrading and expansion works. For further details, please see "Future Plans and Use of Proceeds" in this document.

STATISTICS OF THE [REDACTED]

	Based on an [REDACTED] of	
	HK$[REDACTED] per [REDACTED]	**HK$[REDACTED] per [REDACTED]**
Market capitalisation *(Note 1)*	HK$[REDACTED]	HK$[REDACTED]
Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share *(Note 2)*	HK$[REDACTED]	HK$[REDACTED]

Notes:

1. The calculation of the market capitalisation is based on [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED] and the [REDACTED] without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.
2. Please see "Unaudited pro forma Financial Information" in Appendix II to this document for details regarding the assumptions and calculation basis used.

DIVIDEND

No dividend has been paid by our Company during the Track Record Period. In addition, no dividend or distribution has been declared, made or paid by our Company or any of the other companies comprising our Group as at the Latest Practicable Date in respect of any period subsequent to 30 April 2018 up to the date of [REDACTED].

We currently do not have a formal dividend policy. 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, financial condition, capital requirements, interests of our Shareholders and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends that may be declared by us will be subject to our constitutional documents and the relevant laws.

DEFINITIONS

In this document, unless the context other requires, the following terms shall have the meanings set forth below. Certain technical terms are explained in "Glossary of Technical Terms" in this document.

"[REDACTED]"	[REDACTED]
"AQSIQ"	the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局)
"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 4 October 2018 and as amended from time to time, a summary of which is set forth in "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix III to this document
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	our board of Directors
"business day"	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are normally open for business
"BVI"	the British Virgin Islands
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]

"CIC"	China Insights Industry Consultancy Limited, an Independent Third Party, being a professional market research company
"CIC Report"	the commissioned report on the market overview and competitive analysis for the wastewater treatment industry in the PRC, Ningxia and Yinchuan compiled by CIC, the content of which is quoted in this document
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company"	TIL Enviro Limited (達力環保有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 17 April 2018 and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 17 July 2018
"Concert Party Deed"	a confirmatory deed in relation to parties acting in concert dated 11 April 2018 entered into between Mr. CM Lim and Mr. CS Lim to confirm and record the agreement and understanding between the parties for the acknowledgement of their acting in concert (having the meaning as ascribed to it under the Takeovers Code)
"Concession Agreement"	the Original Concession Agreement as supplemented by the Framework Agreement
"[REDACTED]"	[REDACTED]
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transactions(s)"	has the meaning ascribed thereto under the Listing Rules

"Controlling Shareholder(s)"	has the meaning ascribed to it thereto under the Listing Rules and in the context of this document, means LGB (HK), Sparkle Century, LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling
"core connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Deed of Indemnity"	the deed of indemnity dated 4 October 2018 executed by LGB (Malaysia), LGB (HK), Sparkle Century, Mr. CM Lim and Mr. CS Lim in favour of our Company (for ourselves and as trustee for our subsidiaries) regarding certain indemnities, details of which are set out in "Statutory and General Information — E. Other Information — 1. Tax and other indemnities" in Appendix IV to this document
"Deed of Non-competition"	the deed of non-competition dated 4 October 2018 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for our subsidiaries) regarding non-competition undertakings, details of which are set out in "Relationship with Controlling Shareholders — Non-competition undertakings" in this document
"Director(s)"	the director(s) of our Company
"EIT Law"	the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得税法》) revised on 24 February 2017
"Framework Agreement"	a framework agreement dated 31 May 2014 entered into between Yinchuan Construction Bureau and TYW in respect of certain upgrading and expansion works to be carried out by TYW further to those provided under the Original Concession Agreement, with further details set out in "Business — Business Overview — Our services" in this document
"[REDACTED]"	[REDACTED]
"Group", "our Group", "we, "our" or "us"	our Company and its subsidiaries at the relevant time or, where the context refers to any time prior to our Company becoming the holding company of our present subsidiaries, such subsidiaries and the business carried on by such subsidiaries or (as the case maybe) our predecessors, and "we", "our" or "us" shall be construed accordingly
"HKAS"	Hong Kong Accounting Standards

"HKFRS"	Hong Kong Financial Reporting Standards issued by HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"[REDACTED]"	[REDACTED]
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive officer or substantial shareholders of our Company, our subsidiaries or any of their respective associates
"Issuing Mandate"	the unconditional mandate granted to our Directors to allot and issue Shares pursuant to the resolutions set forth in "Statutory and General Information — A. Further Information about Our Company — 3. Written resolutions of our sole Shareholder passed on 4 October 2018" in Appendix IV to this document
"JLL"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer
"[REDACTED]"	[REDACTED]
"Latest Practicable Date"	[REDACTED], being the latest practicable date prior to the printing of this document for ascertaining certain information in this document
"LGB (HK)"	LGB Group (HK) Limited, a company with limited liability incorporated under the laws of Hong Kong on 29 December 2015 and owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, respectively, and one of our Controlling Shareholders
"LGB (Malaysia)"	LGB (Malaysia) Sdn. Bhd., a company incorporated under the laws of Malaysia and owned as to 30.40%, 30.40%, 10.43%, 10.43%, 10.43%, 5.41% and 2.50% by Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling, respectively, and one of our Controlling Shareholders

"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplement or modified from time to time
"Main Board"	the stock market (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with GEM operated by the Stock Exchange
"Memorandum of Association" or "Memorandum"	the amended and restated memorandum of association of our Company adopted on 4 October 2018 and as amended from time to time, a summary of which is set out in Appendix III to this document
"MEP"	the Ministry of Environment Protection of the PRC* (中華人民共和國環境保護部)
"Ministry of Finance"	the Ministry of Finance of the PRC* (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC* (中華人民共和國商務部)
"MOHURD"	the Ministry of Housing and Urban-Rural Development of the PRC* (中華人民共和國住房和城鄉建設部)
"Mr. CM Lim"	Mr. Lim Chee Meng, a Controlling Shareholder and the brother of Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling and Ms. Lim Wang Ling, and the son of Ms. Geh Sok Lan (also known as Goay Sook Lan), all being our Controlling Shareholders
"Mr. CS Lim"	Mr. Lim Chin Sean, a non-executive Director and the chairman of our Board, a Controlling Shareholder, and the brother of Mr. CM Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling and Ms. Lim Wang Ling, and the son of Ms. Geh Sok Lan (also known as Goay Sook Lan), all being our Controlling Shareholders
"NDRC"	the National Development and Reform Committee of the PRC* (中華人民共和國國家發展和改革委員會)
"NEW"	Ningxia Eco Wastewater Treatment Co. Ltd.* (寧夏宇庫污水處理有限公司), a company established in the PRC with limited liability on 17 June 2010 and directly wholly-owned by TECO and ultimately wholly-owned by our Controlling Shareholders

"Ningxia"	Ningxia Hui Autonomous Region* (寧夏回族自治區), the PRC
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"Opus Capital"	Opus Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the financial adviser to our Company in relation to the [REDACTED]
"Original Concession Agreement"	the concession agreement dated 21 September 2011 entered into between TYW and Yinchuan Construction Bureau pursuant to which TYW was granted a concession right for a term of 30 years from 21 September 2011 to 20 September 2041 to, among other things, operate, manage and maintain our four Wastewater Treatment Plants to provide wastewater treatment services in Yinchuan and undertake upgrading and expansion works (where applicable) on the facilities, with further details in "Business — Business Overview — Our services" in this document
"PBOC"	People's Bank of China
"PGW"	Puresino (Guanghan) Water Co. Ltd.* (瑞華(廣漢)水務有限公司), a company established in the PRC with limited liability on 9 October 2006 and directly owned as to 70% and 30% by TSL and an Independent Third Party, respectively, and indirectly controlled by our Controlling Shareholders
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]

"[REDACTED]"	[REDACTED]
"Plant 1" or "Yinchuan Wastewater Treatment Plant 1"	Yinchuan Wastewater Treatment Plant No. 1 (銀川市第一污水處理廠) operated and managed by TYW pursuant to the Concession Agreement, which is located at Bali Bridge, Manchun Town, Xingqing District, Yinchuan* (銀川市興慶區滿春鄉八里橋)
"Plant 2" or "Yinchuan Wastewater Treatment Plant 2"	Yinchuan Wastewater Treatment Plant No. 2 (銀川市第二污水處理廠) operated and managed by TYW pursuant to the Concession Agreement, which is located at Liziyuan North Road, Xixia District, Yinchuan* (銀川市西夏區麗子園北路)
"Plant 3" or "Yinchuan Wastewater Treatment Plant 3"	Yinchuan Wastewater Treatment Plant No. 3 (銀川市第三污水處理廠) operated and managed by TYW pursuant to the Concession Agreement, which is located at South of Jingtian East Road, Xixia District, Yinchuan* (銀川市西夏區經天東路以南)
"Plant 4" or "Yinchuan Wastewater Treatment Plant 4"	Yinchuan Wastewater Treatment Plant No. 4 (銀川市第四污水處理廠) operated and managed by TYW pursuant to the Concession Agreement, which is located at Ping Fu Qiao Village, Fengdeng Town, Jinfeng District, Yinchuan* (銀川市金鳳區豐登鎮平伏橋村)
"PRC"	the People's Republic of China and, except where the context otherwise requires and for the purpose of this document only, does not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Adviser"	Commerce & Finance Law Offices, legal advisers to our Company as to PRC laws
"Predecessor Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]

"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"Reorganisation"	the reorganisation arrangements undertaken by our Group in preparation for the [REDACTED], which are described in more details in "History, Reorganisation and Development" in this document
"Repurchase Mandate"	the general unconditional mandate to repurchase Shares given to our Directors by our sole Shareholder, particulars of which are set forth in "Statutory and General Information–A. Further Information about Our Company — 3. Written resolutions of our sole Shareholder passed on 4 October 2018" in Appendix IV to this document
"SAFE"	the State Administration of Foreign Exchange* (中華人民共和國國家外匯管理局)
"SAT"	the State Administration of Taxation* (中華人民共和國國家税務總局)
"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) in the share capital of our Company with a nominal value of HK$0.01 each

"[REDACTED]"	[REDACTED]
"Share Option Scheme"	the share option scheme our Company conditionally adopted on 4 October 2018, the principal terms of which are summarised in "Statutory and General Information — D. Share Option Scheme" in Appendix IV to this document
"Shareholder(s)"	holder(s) of Shares
"Sparkle Century"	Sparkle Century Group Limited, a company incorporated in the BVI with limited liability on 6 February 2018 and wholly-owned by LGB (HK), and a Controlling Shareholder
"Sponsor"	Red Sun Capital Limited, a corporation licensed to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the sponsor of the [REDACTED]
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"SWMT"	SWM Technologies (Malaysia) Sdn. Bhd., a company with limited liability incorporated in Malaysia on 26 April 2004 and directly owned as to 100% by LGB (HK) (a Controlling Shareholder)
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as may be amended, supplemented or otherwise modified from time to time
"TECO"	Taliworks Eco Pte. Ltd., a company with limited liability incorporated under the laws of the Republic of Singapore on 4 March 2008, and wholly-owned by LGB (HK) as at the Latest Practicable Date
"TEL"	Taliworks Environment Limited, a company with limited liability incorporated under the laws of Hong Kong on 16 December 2008 and an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation
"TIBI"	Taliworks-IBI Technologies International Limited, a company with limited liability incorporated under the laws of Hong Kong on 4 June 2007 and owned as to 70% and 30% by TIL and an Independent Third Party

"TIL"	Taliworks International Limited, a company with limited liability incorporated under the laws of Hong Kong on 27 September 2002 and an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation
"Tilgea Consortium"	Tilgea Consortium Sdn. Bhd., a company incorporated under the laws of Malaysia on 4 June 2010 and dissolved by striking off on 21 February 2018 which was previously owned as to 70% and 30% by TIL and an Independent Third Party, respectively, immediately prior to its dissolution
"TOT Transfer Agreement"	the Transfer — Operate — Transfer (TOT) project assets transfer agreement dated 21 September 2011 entered into between a state-owned enterprise established under the laws of the PRC and controlled by the local government of Yinchuan as the transferor, and TYW as the transferee, pursuant to which the underlying assets of the Wastewater Treatment Plants, including the facilities and equipment located within the Wastewater Treatment Plants, were transferred by the said transferor as directed and authorised by the local government of Yinchuan in connection with the granting of the concession right to TYW under the Original Concession Agreement
"Track Record Period"	the period comprising the three financial years ended 31 December 2017 and the four months ended 30 April 2018
"TSEL"	Tianjin-SWM (M) Environment Ltd, Co.* (天津大馬南方環保工程有限公司), a sino-foreign cooperative joint venture in which SWMT has contributed 100% of its capital investment, and the joint venture partner is an Independent Third Party
"TSET"	Taliworks (Shanghai) Environmental Technologies Co. Ltd* (達鄴(上海)環保科技有限公司), a company established with limited liability under the laws of the PRC on 5 November 2008, a direct wholly-owned subsidiary of TIL and an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation
"TSH"	Taliworks (Shanghai) Co. Ltd* (達勒沃(上海)環保設備有限公司), a company established with limited liability under the laws of the PRC on 24 July 2005, a direct wholly-owned subsidiary of TIL and an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation

"TSL"	Taliworks (Sichuan) Limited, a company with limited liability incorporated under the laws of Hong Kong on 10 January 2007 and owned as to 80% and 20%, respectively by LGB (HK) (a Controlling Shareholder) and Ambleton Limited (which is owned as to 50% and 50% by Mr. Wong Kok Sun (our executive Director and chief executive officer) and an Independent Third Party, respectively)
"TYW"	Taliworks (Yinchuan) Wastewater Treatment Co. Ltd* (達力(銀川)污水處理有限公司), a company established with limited liability under the laws of the PRC on 6 May 2011, a direct wholly-owned subsidiary of TIL and an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"Warranting Shareholders"	LGB (HK) and Sparkle Century, being parties to the [REDACTED] to give certain representation, warranties and undertakings in favour of our Company, the [REDACTED], and expected to be parties to the [REDACTED] to give certain representation, warranties and undertakings in favour of our Company, the [REDACTED]
"Wastewater Treatment Plants"	Plant 1, Plant 2, Plant 3 and Plant 4
"[REDACTED]"	[REDACTED]
"White Empire"	White Empire Group Limited, a company incorporated in the BVI with limited liability on 12 February 2018 and a direct wholly-owned subsidiary of our Company
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]
"[REDACTED]"	[REDACTED]

"Yinchuan"	Yinchuan City, the capital city of Ningxia, the PRC
"Yinchuan Construction Bureau"	Bureau of Housing and Urban-Rural Development of Yinchuan* (銀川市住房和城鄉建設局), formerly known as Construction Bureau of Yinchuan* (銀川市建設局)
"Yinchuan Environmental Protection Bureau"	Environmental Protection Bureau of Yinchuan* (銀川市環保局) being the competent authority in charge of, among other things, supervision and regulation of wastewater treatment services in Yinchuan
"Yinchuan Treasury Bureau"	Finance Bureau of Yinchuan* (銀川市財政局)
"%"	per cent.
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RM"	Malaysian Ringgit, the lawful currency of Malaysia
"RMB"	Renminbi, the lawful currency of the PRC
"SG$"	Singapore dollars, the lawful currency of Singapore
"US$"	United States dollars, the lawful currency of the United States

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translations of official Chinese names which are marked with "" are for identification purpose only.*

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancy in any table between totals and sums of individual amounts listed in any table are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless expressly stated or the context otherwise requires, all data in this document is as at the date of this document.

All times and dates refer to Hong Kong local time and dates unless otherwise stated.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this document. These terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.

"additional volume"	the surplus volume being the difference between (i) the actual volume of wastewater treated by a Wastewater Treatment Plant; and (ii) the basic volume applicable to the relevant Wastewater Treatment Plant, in the event that the actual volume of wastewater treated for a given day exceeds the applicable basic volume
"anaerobic"	an environment in which oxygen is absent or a process which occurs only in the absence of oxygen
"basic volume"	in respect of each of our Wastewater Treatment Plants, a contractually guaranteed minimum volume applicable to such plant, being a parameter based on which wastewater treatment fees payable to TYW by the local government of Yinchuan are calculated pursuant to the Concession Agreement
"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 returns, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor
"building ownership certificate"	a certificate evidencing a holder's right to use and occupy the property built atop the relevant parcel of land in the PRC
"CAGR"	compound annual growth rate, which is the annual growth rate over a specified period of time longer than one year
"Class IA"	Class IA standard, being the highest treated wastewater standard in the National Wastewater Discharge Standards (GB18918-2002)
"Class IB"	Class IB standard, being the second highest treated wastewater standard in the National Wastewater Discharge Standards (GB18918-2002)
"Class II"	Class II standard, being the treated wastewater standard immediately below Class IB in the National Wastewater Discharge Standards (GB18918-2002)

"Class III"	Class III standard, being the treated wastewater standard immediately below Class II in the National Wastewater Discharge Standards (GB18918–2002)
"commercial operation"	a stage where a wastewater treatment plant is operated under concessionary arrangement with the relevant government authority and qualifies for a basic volume from the government and receiving of wastewater treatment service fees from the government
"contemplated upgrading and expansion works"	the upgrading works carried out and to be carried out at our Wastewater Treatment Plants pursuant to the Concession Agreement and feasibility study reports approved by the local governmental authorities of Yinchuan so that (i) the treated wastewater discharge standard for all the four Wastewater Treatment Plants shall be upgraded from Class II to Class IA; (ii) the daily treatment capacity of each of Plant 2 and Plant 3 shall be increased from 50,000 cubic metres per day to 100,000 metres per day; and (iii) the daily treatment capacity of Plant 4 shall be increased from 100,000 cubic metres per day to 200,000 cubic metres per day where the treated wastewater discharge standard of such additional capacity shall be Quasi Surface Water Quality Standard Class IV (準四類水標準)
"end user"	a person or entity who ultimately uses or is intended to ultimately use a product or service
"filtration"	the process of separating solid particles from liquid or has, by adding a medium which only fluid can pass, usually with filter paper, filter cloth, metal cloth, sand, anthracite and other porous materials as filter materials
"flocculation and coagulation"	a process where solids in the wastewater are thickened by chemical reaction to form larger floss for easier separation
"GDP"	gross domestic product
"land use rights certificate"	a certificate permitting the holder to use a parcel of land as well as apply for the relevant construction work planning permit in the PRC
"IFRIC 12 Service Concession Arrangements"	HK(IFRIC) Interpretation 12 — Service Concession Arrangements in the Hong Kong (IFRIC) Interpretations issued by the Hong Kong Society of Accountants (formerly known as Hong Kong Society of Accountants)

"m^3"	cubic meter, which is a volume unit, equal to the volume of a cube of one meter length of each side
"National Wastewater Discharge Standards"	The Discharge Standards of Pollutants for Municipal Wastewater Treatment Plants* (《城鎮污水處理廠污染物排放標準》) (GB18918-2002) jointly promulgated by MEP and AQSIQ in December 2002 and amended in May 2006
"Oxidation Ditch"	a form of activated sludge treatment, whose structure is a closed canal without terminal, is used for the degradation of organic pollutants, nitrogen and phosphorus and other nutrients, and commonly uses mechanical oxygen filing and propelled water
"Phase I of Plant 2 expansion" or "Phase I expansion"	the first phase of expansion works carried out at Plant 2 to increase the treatment capacity of Plant 2 from 50,000 cubic metres per day to 75,000 cubic metres per day which was completed in December 2017
"Phase II of Plant 2 expansion" or "Phase II expansion"	the second phase of expansion works to be carried out at Plant 2 to increase the treatment capacity of Plant 2 from 75,000 cubic metres per day to 100,000 cubic metres per day which is expected to commence in the second half of 2018
"Quasi Surface Water Quality Standard Class IV (準四類水標準)"	the targeted standard of water to be discharged at the outflow in respect of the additional capacity of 100,000 cubic metres per day to be constructed at Plant 4 as part of the contemplated upgrading and expansion works, as prescribed by the local governmental authorities of Yinchuan to be close to Surface Water Quality Standard Class IV, and such water can be used for water replenishment at scenery locations, street flushing and landscaping purposes
"recycled water"	collected rainwater, industrial drainage and domestic sewage which, after proper treatment, meet the required water quality standards and can be reused as non-drinking water
"SBR"	Sequencing Batch Reactor (SBR), an activated sludge process designated to operate under non-steady state conditions. An SBR operates in a true batch mode with aeration and sludge settlement both occurring in the same tank
"Surface Water Quality Standard Class IV"	Class IV standard in the Surface Water Quality Standards
"Surface Water Quality Standards"	Environmental Quality Standards for Surface Water* (地表水環境質量標準) (GB3838-2002) jointly promulgated by MEP and AQSIQ on 28 April 2002

"tariff"	a fee or the rate of a fee charged for the provision of a certain service or product
"TOT" or "Transfer — Operate — Transfer"	a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, while upon the expiration of the concession period, the relevant facilities shall be transferred back the government at nil consideration
"upgrading and expansion works"	pursuant to the Concession Agreement, the upgrading works required to be carried out from time to time by TYW for the purpose of upgrading the treated wastewater discharge standard(s) at the Wastewater Treatment Plants to higher standard(s) and the expansion works required to be carried out from time to time by TYW for the purpose of increasing the daily wastewater treatment capacities of the Wastewater Treatment Plants or any one or a combination of the above
"utilisation rate"	the actual volume of wastewater treated divided by the designed wastewater treatment capacity for a given period
"VAT"	value-added tax
"wastewater"	water discharged from living and production activities and contaminated to some degree
"wastewater treatment"	the use of physical, chemical and biological processes to remove or reduce pollutants from wastewater before discharging it into a water body or reclaiming it for reuse
"water bodies" or "water body"	a body or bodies of water which is a significant accumulation of water generally on the surface of the earth, examples of which include oceans, seas, lakes, rivers, streams, ponds and wetlands
"13th Five-Year Plan"	13th Five-Year Plan for Economic and Social Development of the People's Republic of China* (2016–2020)《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要(2016–2020)》

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. When used in this document, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "project", "propose", "continue", "seek", "should", "target", "will", "would" and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and growth plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs;
- our ability to identify and successfully take advantage of new business development opportunities; and
- our dividend policy.

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialise or may change. Actual results may differ materially from information, implied or expressed, in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set out in "Risk Factors" in this document and the following:

- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC, including the sustainability of the economic growth in the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set forth in this section as well as the risk factors set out in "Risk Factors" in this document.

You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in the [REDACTED]. We could be materially adversely affected by any of these risks. The trading price of the [REDACTED] could decline due to any of these risks, and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorized into: (i) risks relating to our business and industry; (ii) risks relating to business operations in the PRC; and (iii) risks relating to the [REDACTED].

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our Group may not be able to renew our Concession Agreement upon its expiry and may not be able to secure new projects to sustain or grow our business

Our Group's revenue is mainly derived from our operations of the Wastewater Treatment Plants. For the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, the aggregate revenue generated from our (i) wastewater treatment construction services; (ii) wastewater treatment operation services; and (iii) finance income from service concession arrangement accounted for approximately 97.0%, 97.0%, 98.2% and 98.0% of our revenue, respectively. We operate our Wastewater Treatment Plants under the Concession Agreement based on TOT model, whereby we were given a concessionary right to operate the facilities for period of 30 years. There is no provision for automatic renewal of the concessionary right in the Concession Agreement. Upon the expiry of the concession period, we are required to transfer the control and rights of use of the facilities and the land occupied by the facilities to the local government for nil consideration. Therefore, our Group's sustainability after the expiry of the existing term of the Concession Agreement in 2041 and future growth depends on our ability to secure and execute new projects as well as our ability to obtain the concession right to continue operating our existing facilities after the expiry of the current term of the Concession Agreement is uncertain.

We operate and manage our Wastewater Treatment Plants under the Concession Agreement which was awarded through competitive open tender process. It is uncertain whether any future concession right to operate and manage our Wastewater Treatment Plants upon the expiry of the current term of the Concession Agreement would be granted to us or renewed through negotiation with the local government or whether the local government would invite bidders and go through a competitive tender process before any further concession right would be awarded. In the event that we are unable to acquire or extend or renew our concession right under the Concession Agreement after the expiry of its current term, or should we be unable to win the tender for the concession rights to secure new projects, our sustainability and prospects after the expiry of the existing Concession Agreement may be adversely affected.

Although it is our strategy to expand our scale of business by pursuing new wastewater treatment projects in the PRC in future, our Group's sustainability after the expiry of the existing term of the Concession Agreement in 2041 and future growth depends on a number of factors, many of which are beyond our control, including:

- global, national and local economic conditions;
- development of our target markets, including the development of local economies and population growth, and the resulting demand for wastewater treatment services;
- government policies and regulatory requirements, including environmental standards and the level and effectiveness of government promulgation of environmental protection measures that affect our industry;
- our ability to identify commercially viable projects and successfully win the bids for such projects;
- our ability to collaborate with local governments to execute the construction (where applicable for BOT projects) and operation of wastewater treatment projects;
- competition in the PRC's wastewater treatment industry;
- availability of suitable land, infrastructure, equipment and other materials necessary for the construction and operation of wastewater treatment facilities; and
- cost of financing.

Should we be unable to obtain a renewal of our concession right upon its expiration under the Concession Agreement, and in the event that we fail to secure and execute new projects on terms and in a manner sufficient to support our anticipated growth, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Our Group may not be successful when undertaking new wastewater treatment projects

Since our inception, our Group has focused primarily on the development and operation of wastewater treatment facilities in Yinchuan. In future, our expansion into other geographical locations and other environmental protection projects involves uncertainties and challenges which may arise due to our unfamiliarity with the local regulatory practices and customs, customer preferences and behaviour, the reliability of local contractors and suppliers, business practices, business environments and municipal-planning policies in such regions and the risk profiles of such new projects.

In addition, expanding our business into new geographical locations would entail competition with other operators of wastewater treatment facilities that have already established local presence, more familiarity with local regulatory and business practices and customs, and stronger ties with local government authorities and administrative committees, customers, suppliers and contractors. In future, we may also pursue new wastewater treatment project model other than the TOT model, e.g., the BOT model, which is a common public-private partnership model whereby the successful bidder is required to construct the wastewater treatment facilities rather than acquiring existing facilities prior to providing

the wastewater treatment services. As we may face challenges not previously encountered, we may fail to recognise or properly assess risks or take full advantage of opportunities, or otherwise fail to adequately leverage our past experience to meet challenges encountered when expanding into such geographical areas. Expanding into new project types and geographical locations also requires a significant amount of capital and management resources.

We will also need to manage the growth in our workforce to match the expansion of our business. We may also face considerable reputational and financial risks if any of the new projects we undertake in future is mismanaged or does not meet the expectations of our customers. Any of these factors could materially and adversely affect our business, financial condition and operational results.

Our Group's largest customer accounted for approximately 97.0%, 97.0%, 98.2% and 98.0% of our revenue during each of the financial years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively, and in the event that our Concession Agreement is early terminated, it could have a material adverse impact on our business, financial condition and operational results

Approximately 97.0%, 97.0%, 98.2% and 98.0% of our Group's total revenue in each of the three financial years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively, were derived from our largest customer, Yinchuan Construction Bureau, a government authority. Further, it is expected that Yinchuan Construction Bureau will remain our principal customer for the remaining duration of the concession period. The development and operations of our existing facilities are subject to the terms of the Concession Agreement with Yinchuan Construction Bureau. Under the Concession Agreement, our customer may exercise the right of early termination with or without compensation if we commit material breach of Concession Agreement, which include but not limited to, (i) our prolonged suspension of our wastewater treatment services without prior approval by our customer; (ii) the treated wastewater discharged from our facilities fails to meet the required standards and specifications in the Concession Agreement and we fail to rectify the situation within a specified period of time after receiving written notification from our customer; (iii) our failure to complete on time the upgrading and expansion works as required by our customer or such works fail to meet the contractual or regulatory requirements; or (iv) occurrence of serious safety harzards as a result of our failure to properly maintain and manage our facilities. Such failures may arise as a result of unsatisfactory construction or equipment design or workmanship of our suppliers or contractors of our upgrading or expansion works and equipment maintenance services, human error, untimely delivery of services, failure to adhere to rules and regulations or negligence or wilful default of our suppliers or contractors, which may be beyond our control.

In the event that Yinchuan Construction Bureau were to terminate the Concession Agreement with our Group entirely, there can be no assurance that our Group would be able to obtain new projects from other customers or government authorities to replace any such loss or if our Group were to be able to obtain other projects on reasonable terms acceptable to us. If we fail to secure and execute new projects on terms and in a manner sufficient to support our anticipated growth, our business, financial condition, results of operations and prospects would be materially and adversely affected.

We recognise revenue from our wastewater treatment construction services for the upgrading and expansion works, but typically do not receive any actual payments in return for that until the operational phase of these upgraded and/or expanded parts, which may result in a mismatch between our revenue and the underlying cash flows for our service concession arrangements which may adversely affect our results of operations and liquidity, and our revenue may decline after 2020 after all of the existing scheduled upgrading and expansion works have been completed

For our TOT project and the Concession Agreement, once we took over the operations, we receive regular, usually monthly, cash payments from the relevant customer based on the contractually agreed pricing formula and the volume of wastewater treated or water supplied (or the contractually guaranteed basic volume). For our carrying out of the upgrading and expansion work as required by our customer, we are required to pay for the construction cost upfront to carry out the upgrading and expansion works and we usually do not receive payments from our customer in return for that during the construction phase of these upgrading and expansion works, instead, we would be entitled to receive an upward revision in tariffs after the completion of upgrading works and, as the case may be, an increase in guaranteed volume for the calculation of our wastewater treatment service fees after the completion of expansion works during the operation phase of the completed upgraded and/or expanded facilities during the remaining term of the Concession Agreement. Thus, we may need to rely on our internal resources and external financing to supplement cash flow from operations so as to meet our payment obligations in full and on time in relation to the upgrading and expansion works. If we fail to secure sufficient external financing or generate sufficient cash from our operations to finance the upgrading and expansion works, or if our finance costs increase materially, our business, financial condition, results of operation and prospects may be materially and adversely affected.

Moreover, in accordance with HKFRS, we recognise revenue from these upgrading and expansion works during both the construction phase and the operational phase of the upgraded and/or expanded parts of our Wastewater Treatment Plants. We record revenue during the construction phase on the basis of percentage of completion method, based on the cost of construction incurred. The revenue recognized from the construction phase of upgrading and expansion works is also recognised as a service concession receivable to be offset against the allocated amount after receipt of the cash tariff and other payments received related to the relevant upgraded and/or expanded parts during the operational phase. Service concession receivables for our TOT project are settled during the concession period, which has a term of 30 years. There is no assurance that we can receive sufficient cash payments from our operations before the expiration of the concession period for which construction revenue had been recognised, for example, if the actual cash receipts in the operation phase of the project are significantly lower than expected. In such case, we may need to recognize impairment or write-offs in the subsequent period(s) for our financial assets or receivables under service concession arrangements. For the accounting treatment of revenue generated from our construction services in connection with our upgrading and expansion works which are accounted for as service concession arrangements and how such revenue is recorded as "intangible assets" and "receivables under service concession arrangements" on our statement of financial position, see "Financial Information — Critical accounting policies, estimates and judgment." There is no assurance that impairment or write-offs will not occur in future, in which case our financial condition and results of operations may be materially and adversely affected. Therefore, when reviewing our business, financial condition and results of operations, you should read our financial statements in light of the mismatch between our revenue and the underlying cash flows as a result of the accounting treatment for service concession arrangements in assessing our historical performance and prospects. In addition, since we recognize revenue from our wastewater treatment construction services

for the upgrading and expansion works, and based on the information available as at the Latest Practicable Date, it is expected that all of the existing scheduled upgrading and expansion works for our Wastewater Treatment Plants will be completed by the end of 2020, our revenue may decline after 2020 after all of the upgrading and expansion works have been completed.

We recorded negative operating cash flow during each of the four months ended 30 April 2017 and 30 April 2018, respectively. If we continue to record negative operating cash flow in future, our liquidity and financial condition may be materially and adversely affected.

We recorded negative operating cash flow for each of the four months ended 30 April 2017 and 30 April 2018 of approximately HK$271,000 and HK$35.5 million, respectively. Our cash outflows from operating activities were primarily used for the payment of construction costs, costs of wastewater treatment operation, including utility, and chemicals, employee expenses and other operating costs in relation to our Wastewater Treatment Plants. For the four months ended 30 April 2018, our Group had net cash used in operating activities of approximately HK$35.5 million, which was largely attributable to the combined effect of (i) operating profit before working capital changes of approximately HK$41.1 million, comprised primarily of profit before income tax of approximately HK$29.4 million added back finance costs of approximately HK$14.9 million; and (ii) the net working capital outflow of approximately HK$76.7 million which was primarily attributable to (a) the increase in trade and other receivables of approximately HK$44.1 million which was largely related to the increase in trade receivables of approximately HK$39.8 million as our Group recorded a higher portion of trade receivables aged between 31 to 90 days, based on invoice dates, mainly as a result of longer settlement period from Yinchuan Construction Bureau; and (b) the increase in receivables under service concession arrangement of approximately HK$38.9 million as a result of the tariff payments received by our Group being less that the revenue recognised from our wastewater treatment construction services, our wastewater treatment operation services and finance income from service concession arrangement during the relevant period. Pursuant to the Concession Agreement, we are required to pay for the construction costs upfront to carry out the upgrading and expansion works to our Wastewater Treatment Plants and in return we would be entitled to an upward revision in tariffs after the completion of upgrading and an increase in guaranteed volume for the calculation of our wastewater treatment service fees after the completion of expansion works. The cash we spend on the upgrading and expansion works is recorded as cash used in operating activities, and the upgrading and expansion works are capital intensive.

We recognise revenue from our wastewater treatment construction services for our upgrading and expansion works, but typically do not receive any actual payments in return until the operational phase of these upgraded and/or expanded parts of our Wastewater Treatment Plants, which may result in the initial cash outflow for carrying out the upgrading and/or expansion works exceeding cash inflow. Mainly due to the increase in construction cost incurred during the four months ended 30 April 2018 which was close to the completion stage of the upgrading works at Plant 1 and Plant 4, our cash used in operating activities have exceeded cash flows generated from operating activities during such period. The net cash used in operating activities of approximately HK$271,000 recorded for the four months ended 30 April 2017 was mainly due to similar reason as mentioned above as we were close to the completion stage for the upgrading and expansion works for Plant 3 at that time, and such works were completed in July 2017. If we continue to have negative operating cash flow in future, our liquidity and financial condition may be materially and adversely affected. Please see "Financial Information — Liquidity and capital resources — Cash flow analysis — Net cash generated from/used in operating activities" in this document for further details. We cannot assure you that we will be able to record

positive operating cash flow in future. Our liquidity and financial condition may be materially and adversely affected should our future operating cash flow remain negative, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us or at all.

Changes in accounting standards applicable to service concession arrangements and changes in our judgments and assumptions in applying these accounting standards may have a material impact on our results of operation and financial position.

We apply IFRIC 12 and other relevant accounting standards for the preparation of our consolidated financial statements in connection with among others, our service concession arrangements. These accounting standards may be changed or amended from time to time. Any changes in these accounting standards may result in changes in the recognition, measurement and/or classification of our revenue, expenses, assets and liabilities, which could have material impact on our results of operation and financial position. Moreover, in applying these accounting standards, we are required to make judgments, estimates and assumptions with respect to our revenue, expenses, assets, liabilities, as well as our cash flow projections based on historical experience and other factors that we consider to be relevant. For more information on the accounting treatment of our acquisition of the concession right and operation of our Wastewater Treatment Plants under the Concession Agreement, including our initial investment, construction revenue recognised during upgrading and expansion of our Wastewater Treatment Plants, operation revenue from our provision of wastewater treatment services during the concession period, and financial income from service concession arrangement, please see "Financial Information — Critical accounting policies, estimates and judgment" in this document. There is no assurance that our estimates and assumptions can always be accurate, and we may have to make necessary changes and adjustments to the relevant policies governing these estimates and assumptions, in which case our results of operation and financial position could be materially and adversely affected.

Our Group's operation is subject to risk of changes in the laws and regulations for wastewater treatment services in the PRC

We operate within an industry where laws and regulations play a critical role in affecting our business. Any changes in legislative, regulatory or industrial requirements may render our wastewater treatment facilities obsolete.

While the PRC Government has adopted a favourable regulatory policy to the environmental protection industry and has stated its intention to allocate additional financial resources in such industry, we cannot assure you that the government will indeed execute such government spending plan. We also cannot predict the impact on the wastewater treatment industries arising from such a spending plan. In addition, should the government withdraws or suspends its favourable policy to the environmental protection industry in future, our growth and prospects could be materially and adversely affected.

Furthermore, changes in regulations or standards for wastewater treatment or other environmental regulations may require us to adopt new technologies or implement improvement to our existing facilities. We may need to upgrade our existing wastewater treatment flow or facilities to meet the standards imposed by the relevant regulatory authorities, which could require additional time or financial, human and other resources. Our ability to anticipate changes in regulatory standards, to develop and introduce wastewater treatment processes and to be abreast of such new regulatory

standards will significantly affect our ability to grow and to remain competitive. In the event that we are unable to source new and enhanced solutions to comply with such changes in a timely manner or at reasonable costs, we may not be able to maintain our competitive edge and our profitability may be adversely affected.

Failure to obtain further and sufficient funding on a timely basis to fund our operations, upgrading and expansion works at reasonable rates, or at all, may adversely affect our Group's financial condition and results of operations and could prevent us from fulfilling our contractual obligations and business objectives

Our Group's operations, in particular, the upgrading and expansion works on our Wastewater Treatment Plants require us to incur significant construction costs and we only receive increase in tariffs and revision in basic volumes after the completion of the relevant contemplated upgrading and expansion works for the relevant Wastewater Treatment Plants. For the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, we incurred construction costs of approximately HK$82.9 million, HK$29.7 million, HK$179.3 million and HK$56.0 million, respectively in the contemplated upgrading and expansion works of our Wastewater Treatment Plants. As at 30 April 2018, based on the existing requirements and scope of the contemplated upgrading and expansion works we are obliged to perform under the Concession Arrangement, we expect that an additional construction costs of approximately RMB468.0 million (equivalent to approximately HK$585.0 million) is required for completing such works. See summary table in "Business — Our existing wastewater treatment facilities" for further details.

We rely heavily on external sources of funding, including bank borrowings and equity investment from our Shareholders to finance the construction of our contemplated upgrading and expansion works. As at 31 December 2015, 2016 and 2017 and 30 April 2018, our outstanding bank borrowings were approximately HK$734.8 million, HK$714.6 million, HK$768.5 million and HK$799.7 million, respectively. The bank facilities currently granted to our Group contain provisions giving the rights to the bank to demand all our outstanding borrowings immediately due and payable upon the occurrence of certain events which include but not limited to events which are considered to have a material adverse impact on the repayment ability of our Group.

Therefore, our Group's ability to maintain external funding from bank borrowing depends on a number of factors, including, but not limited to, general economic and capital market conditions, general conditions in the wastewater treatment industry, economic conditions in the geographic area of our facilities, government policies, and the performance of our operations, and in case we are required to undertake further expansion and/or upgrading works by the local government or we are awarded new projects to build and/or operate additional wastewater treatment facilities in Ningxia or other places in the PRC, we cannot assure you that further external funding will be available to us on acceptable terms or at all. Failure to maintain our current bank facilities or obtain additional funding may delay the implementation of our contemplated upgrading and expansion works or new projects, expose us to potential penalties under the Concession Agreement and other relevant agreements for engaging our suppliers of materials and/or services, and delay the completion of our works or commencement of operation of new projects, any of which could adversely affect our business, financial condition, results of operations and prospects.

We had net current liabilities during the Track Record Period and may continue to have net current liabilities in future

We recorded net current liabilities of approximately HK$391.2 million, HK$265.4 million, HK$293.4 million and HK$176.0 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. As at 31 December 2015, the largest current liabilities balance was amount due to Taliworks Corporation Berhad, being approximately HK$534.5 million. As at 31 December 2016, 31 December 2017 and 30 April 2018, the largest current liabilities balance was amount due to LGB Group (HK) Limited, being approximately HK$535.2 million, HK$595.7 million and HK$602.3 million, respectively. Please refer to the paragraph headed "Financial information — Net current liabilities" in this document for further details.

Our future liquidity and the repayment of our outstanding debt obligations when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and our ability to obtain adequate external financing.

Our Group may continue to record net current liabilities in future. Having significant net current liabilities could constrain our operational flexibility and adversely affect our ability to expand our business. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to rely on additional external borrowings for funding. If adequate funds are not available, whether on satisfactory terms or at all, we may be forced to delay or abandon our upgrading and expansion plans, and our business, financial condition and results of operations may be materially and adversely affected.

We finance a substantial portion of our wastewater treatment project through bank loans and our financing costs and profitability are subject to changes in interest rates

We have utilised a substantial amount of bank borrowing to fund our payment for acquiring the concession right and taking over the underlying assets of our Wastewater Treatment Plants under the TOT model upon our entering into of the Original Concession Agreement and the TOT Transfer Agreement in 2011. We were also required to make substantial investments for undertaking the contemplated upgrading and expansion works and we have relied on bank loans to finance a significant portion of such upgrading and expansion works during the Track Record Period.

As such, as at 31 December 2015, 2016 and 2017 and 30 April 2018, our outstanding bank borrowings were approximately HK$734.8 million, HK$714.6 million, HK$768.5 million and HK$799.7 million, respectively, and our gearing ratio was 94.4%, 93.6%, 87.2% and 81.7%, respectively. We expect to continue to utilise bank loans to finance a substantial portion of our investments in carrying out upgrading and expansion works of our facilities and new projects that may be secured by us in future.

As our bank loans are principally denominated in RMB, the interest rates on our loans are primarily affected by the benchmark interest rates set by PBOC. In the PRC, PBOC regulates the lending rates and reserve requirement ratios for commercial banks. The reserve requirement refers to the amount of funds that banks must hold in reserve with PBOC against deposits made by their customers. Increases in the bank reserve requirement ratios may negatively impact the amount of funds available to commercial banks in the PRC to lend to businesses, including our Company. We cannot assure you that

the PBOC will not further raise lending rates or reserve requirement ratios in future and any such increase may lead to higher lending rates and/or limit the amount of funds the banks have for lending, which may increase our financing costs and thereby, materially and adversely affect our business, financial condition, results of operations and prospects.

Our Group recorded gearing ratio of approximately 94.4%, 93.6%, 87.2% and 81.7% as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively (without taking into account the [REDACTED] and the expected capitalisation of the amount due to LGB (HK) prior to the [REDACTED]). As our business operation is capital intensive in nature and we expect we will continue to rely heavily on bank loans to fund our operations and expansion in future, our gearing ratio may increase in future as a result of us obtaining additional external financing envisaged for funding our operations and future projects. Any increase in our gearing ratio may (i) increase our vulnerability under adverse economic condition; (ii) potentially limit our ability to raise more debt; and (iii) increase our exposure to interest rate fluctuation. If we continue to have a high gearing ratio, our exposure to liquidity risk may restrict our ability to make necessary capital expenditure or seize business opportunities in future, which may adversely affect our results of operations and financial positions.

The operation of our Wastewater Treatment Plants is exposed to risks associated with the construction and maintenance of pipeline network by the local governmental authorities

The inflow of wastewater into and outflow of treated wastewater from our facilities are dependent on the external pipeline network in Yinchuan, and hence our Group's operation is dependent on the timely construction and proper maintenance of the pipeline network by the local government for the wastewater treatment process, which is not within our control. Accordingly, we cannot assure the proper operation of such pipelines. In the event that there is any defect in the pipelines, which delays or otherwise obstructs the supply of wastewater to our wastewater treatment facilities, or the outflow of the treated wastewater from our facilities, the Wastewater Treatment Plants may be substantially disrupted and our ability to process wastewater in a timely manner may be materially and adversely affected and we may be exposed to penalty under the Concession Agreement as a result of the disruption.

Our Group may not be granted revisions to our tariffs and/or basic volumes in a timely manner and we cannot guarantee that such revisions could fully cover the increase in our actual costs incurred in day-to-day operations as well as in our contemplated upgrading and expansion works which are capital intensive in nature

Our Group operates and maintains our existing Wastewater Treatment Plants and receive wastewater treatment service fees from the local government based on pre-agreed tariffs. The wastewater treatment fees under the Concession Agreement are calculated based on a tariff for the basic volume of wastewater applicable to our individual Wastewater Treatment Plants and a discounted unit rate at 60% of the tariff for the additional volume in excess of the aforementioned basic volume. Such tariff rates were pre-determined at the time we entered into the Concession Agreement with the relevant local government authority, subject to subsequent revisions. The Concession Agreement contain provisions specifying the circumstances when the parties can revise the tariff rates, which include changes in operation and management costs due to inflation in the PRC by reference to the relevant benchmark prices which affect our cost for materials, labour, equipment and maintenance services for our facilities which, in turn, result in increase in our operating costs.

Generally, the Concession Agreement provides for periodic revision (once every two years) based on assessment of benchmark prices announced by the government authorities. However, we cannot assure you that any future tariff rate revision in relation to inflation could be granted in a timely manner as any such revision is subject to the approval procedures by the local government authorities, and such upward revisions may lag significantly behind the increase in our operating costs. In addition, as such kind of revision is based on benchmark prices announced by the PRC governmental authorities rather than on actual cost basis, we cannot assure you that any such revision could fully cover the increase in our operation costs actually incurred by us. We also cannot assure you that such authority or committee will not reduce the tariffs correspondingly should the relevant benchmark prices or key cost indices decrease. If we incur significantly higher operating costs without a timely corresponding increase in the tariffs or in the event of a reduction in tariffs, we may not be able to sustain our profitability or we may even incur a loss, and as a result, our business, financial condition and operational results may be materially and adversely affected.

Further, under the Concession Agreement, revisions in our tariffs and the applicable basic volume for calculating our wastewater treatment service fees shall be negotiated for between us and the local government upon completion of upgrading and expansion works. However, all the upgrading and expansion costs have to be borne by us first before we could receive a return from upward revisions to our tariffs and basic volumes and such revisions are subject to auditing of our construction costs by third parties engaged by the local government based on a 6-month operating track record after the completion of the relevant upgrading and/or expansion works and the final approval by the local government, which in total may take approximately 1.5 to two years after completion of the relevant contemplated upgrading and expansion works.

As revisions in tariff and basic volume are subject to auditing by third parties designated by the local government and administrative approval procedures of the local government, we cannot assure you that the relevant local government authority or administrative committee will approve our applications to increase the tariffs and basic volumes on a timely basis and there are risks that the upward revisions may lag significantly behind our expenditure of investment costs.

Failure to obtain or renew the approvals, permits, licenses and certificates could result in fines and penalties as well as disruption to our operations and growth plan

We are required to obtain certain approvals, permits, licences and certificates from various competent government authorities and complete the environmental impact assessment in order to operate our Wastewater Treatment Plants. Details of the approvals, permits, licences and certificates we are required to obtain or maintain are set out in "Regulatory Overview — Environmental Protection", "Regulatory Overview — Water Quality — Pollutants Discharge Permit" and "Business — Licenses and Permits". As at the Latest Practicable Date, we had obtained all relevant approvals and permits necessary for our wastewater treatment services and completed all the relevant environmental protection inspection and acceptance and the completion acceptance for those of our completed upgrading and expansion works. Previously there had been an incident that we had not obtained the completion acceptance for the upgraded facilities in Plant 2 and Plant 4 and the Phase I of Plant 2 expansion works prior to the commencement of operation of the said upgraded facilities and completed expansion works in December 2017 which had subsequently been completed as at the Latest Practicable Date. Under PRC laws, we could be imposed fines by governmental authorities and liable to pay compensation if any losses have been caused by not having passed the completion acceptance before delivering a

construction project for use. See "Business — Legal non-Compliance" for details. We cannot assure you that all of these required approvals, licences, permits and certificates, such as wastewater discharge permits, the environmental impact assessment, environmental protection inspection and acceptance and completion acceptance filings can be obtained or completed in a timely manner or at all in respect of our upgrading and/or expansion works that are still on-going or to be carried out in future.

In addition, some of these approvals, licences, permits and certificates are subject to periodic review and renewal by the competent government authorities and the standards for compliance required in relation thereto may, from time to time, be subject to change. Any changes in the existing policies by the competent government authorities which result in the imposition of more burdensome requirements may result in our failure to obtain or maintain such approvals, permits, licences and certificates. Any such failure could subject us to fines and other penalties, including the suspension or shut down of our operations, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our Group is exposed to risk of payment delays by our customer

Our Group is subject to the risks of our customer delay in payment and our cash flow is dependent on our customer making prompt payment on billings for wastewater treatment services provided by us, in accordance with the agreed payment methods set out in our Concession Agreement. As prescribed in the Concession Agreement, we bill our customer monthly and the credit period of our monthly service fees is approximately 20 days after our bill is issued.

During the Track Record Period, there had been incidents of payment delays by our customer beyond the prescribed period as mentioned above. Accordingly, we cannot assure you that we will be able to collect all or any part of our billed receivables under the Concession Agreement. Our cash flow and financial performance could be severely and negatively affected by defaults and delays in payments by our customer for the wastewater treatment services provided by us which may be difficult to anticipate or prevent. Non-payment or any delay in payments by our customer could materially and adversely affect our business, financial condition and operational results.

Our Group is dependent on our senior management team

We attribute our success to the contributions of our stable management team with diverse backgrounds and substantial experience in the wastewater treatment industry. Our senior management team comprises, among others, Mr. Wong Kok Sun, being our executive Director and chief executive officer, and Mr. Han Ning, being our general manager. Mr. Wong Kok Sun has been overseeing the wastewater treatment operations of our Group since 2012 whereby he has accumulated abundant experience and has led the management and operation of TYW since its early stage of development. Mr. Han Ning joined our Group in 2013 and he has more than 19 years of experience in the wastewater treatment industry. 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 a timely and suitable replacement will materially and adversely affect our business, financial condition and operational results. For further details on the experience of our senior management team, please refer to "Directors and Senior Management" in this document.

Our Group's wastewater treatment facilities are subject to operational and construction risks

Operating and managing our wastewater treatment plants, including the upgrading and expansion works, involve various risks, including, amongst others, operational risks and construction risks. The operation of our Wastewater Treatment Plants, including upgrading and expansion of our existing facilities or any new project that we may undertake in future, could be materially and adversely affected due to a number of factors, including:

— the external contractors hired by us may not be able to complete the construction or installation work in our upgrading and expansion works on time, within budget or to the specifications or standards required;

— shortages of, and price increases in, equipment, materials or labour;

— changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our facilities, including their upgrading and expansion works;

— accidents during upgrading and expansion or operation of our wastewater treatment facilities;

— extreme adverse weather conditions, or fire, typhoons or other natural disasters;

— engineering, construction-related, regulatory and equipment problems;

— materials and equipment suppliers for our Wastewater Treatment Plants or our upgrading and expansion works may not supply the required materials or equipment in the expected quantities/quality or at all;

— governmental or other statutory approvals or other approvals that are required for the upgrading and expansion or operation of our Wastewater Treatment Plants (including the upgraded and/or expanded parts) may be delayed or denied; and

— we may not be able to accurately estimate the pollutant levels in the inflow of wastewater into our wastewater treatment facilities.

We cannot assure you that the operations and the upgrading and expansion of our wastewater treatment facilities or any future projects will be successful. We may not achieve the expected economic benefits from upgrading and expansion of our facilities or our future projects and the failure to obtain the expected economic benefits could materially and adversely affect our business, financial condition and operational results.

Our business may be materially and adversely affected if there is significant downtime in our Wastewater Treatment Plants which may expose us to liabilities under the Concession Agreement

Our Group's Wastewater Treatment Plants are subject to normal wear and tear in the course of our operations. As a result, our facilities may require downtime for repairs and maintenance. However, if the time and cost required for such repairs and maintenance exceeds our expectations, our operations may be affected for a period longer than anticipated and our revenue from our Wastewater Treatment Plants may

be less than we originally projected. In addition, if any extensive repairs to our facilities or equipment are required, due to any significant or catastrophic event or otherwise, our facilities could require significant downtime during which they would not be able to treat wastewater as required under the Concession Agreement.

According to the Concession Agreement, each of our four existing plants shall not suspend its operations for more than 18 days cumulatively during any operation year, and during periods of suspension which have been planned ahead and approved by Yinchuan Construction Bureau, we are still required to treat not less than 50% of the daily basic volume of wastewater per day if the volume of incoming wastewater exceeds 50% of the daily basic volume, or where the volume of inflow of wastewater is below 50% of the daily basic volume, we are required to treat all of the inflow of wastewater for the relevant day, failing which we shall be liable to pay penalty to our customer.

Moreover, if any of our plants are suspended from service for five consecutive days or above or accumulatively for 10 days or more during any operation year which have not been approved by our customer in advance, such suspension will constitute material breach of the Concession Agreement giving rights to our customer to early terminate the Concession Agreement and we may be subject to claims for damages. Further, any unexpected significant downtime of our facilities may also have significant consequences to the communities and industries around our facilities, which in turn, could lead to our customer deciding to terminate the Concession Agreement with us or we may be subject to claims for damages. Thus, any such extraordinary or extensive downtime may lead to the termination of the Concession Agreement and claims which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

Our Group's customer for our wastewater treatment services may make claims against us and/or terminate our services in whole or in part should we fail to complete the upgrading and expansion works within the prescribed timelines under the Concession Agreement or as permitted by our customer

Under the Concession Agreement, we are required to complete certain upgrading and expansion works and implement the upgraded wastewater discharge and/or expanded capacity at our facilities within the prescribed timelines as specified or approved by our customer. We cannot assure you that the completion of such upgrading and expansion works will not be delayed or will meet the requirements and expectations of our customer due to factors not within our control, such as delays caused by contractors, shortage of material supplies or labour, accidents, extreme weather conditions, etc. Failure to implement the upgrading and expansion to the satisfaction of our customer or failure to comply with relevant governmental policies and standards may lead to penalties or claims against us and/or the termination of our services in whole or in part prior to the expiration of the Concession Agreement.

Such failure may arise as a result of unsatisfactory project design or workmanship, staff turnover, human error, untimely delivery of services, default by our contractors, or misinterpretation of, or failure to adhere to, regulations and procedures by us or our contractors, some of which may be beyond our control. The claims against us and/or the termination of our services in whole or in part prior to the expiration of the concession term may adversely affect our business, financial condition, results of operations and prospects. In addition, in the event that we are found to be liable for delays or failure to complete the upgrading and expansion works for our Wastewater Treatment Plants to the satisfaction of our customer, we may be required to pay liquidated damages to our customer to compensate for their

losses, which could further materially and adversely affect our business, financial condition, results of operations and prospects. Please refer to "Business — Our existing wastewater treatment facilities" in this document for more information regarding our obligations of upgrading and expansion under the Concession Agreement.

Excessive pollution levels in the wastewater to be treated by our Wastewater Treatment Plants may adversely affect the efficiency and effectiveness of our wastewater treatment operations and our earnings

Our Wastewater Treatment Plants are built to treat wastewater to specified quality standards. According to the Concession Agreement, we are required to treat wastewater appropriately so that the treated wastewater discharged from our facilities could meet the required standards under the Concession Agreement.

The Concession Agreement provides that in case the quantities of certain pollutants or substances in the treated wastewater discharged from our facilities are found to exceed the prescribed parameters, we shall be liable to pay certain penalty to our customer. However, the inflow of wastewater to be treated by our facilities may contain pollutants exceeding the types and quantity contemplated during the design and construction and subsequent upgrading of our plants, due to, among other things, industrial accidents, expansion of the industries in the surrounding area of our facilities, excessive discharges of pollutants, oil spills, or other events beyond our control.

Any excessive pollution levels of the inflow of wastewater into our facilities may adversely affect our operating costs, the efficiency and effectiveness of our wastewater treatment processes and our profitability due to higher costs of treating the wastewater to attain the quality standard specified in the Concession Agreement or as required by our customer.

In addition, there may be disagreements as to the extent to which the inflow of wastewater is considered to include levels of pollutants exceeding those set forth in the Concession Agreement, in which case we may need to spend additional time and effort to negotiate with our customer as to who should be liable for such excessive levels of pollutants of the inflow of wastewater treated by us, and for compensation to us, including agreeing to an upward adjustment in the tariff payable to us. However, we cannot assure you that the outcome of any such kind of incidents will be favourable to us and we would be held accountable for the treated wastewater not meeting the required standards even if the cause is solely due to excessive levels of pollutants in the inflow of wastewater, which in turn could adversely affect our reputation and could materially and adversely affect our business, financial condition, results of operations and prospects.

Further, our Group is exposed to environmental risks due to the nature of our business operations. Water supplies may be exposed to pollution, including pollution from the development of naturally occurring compounds due to a number of factors, including but not limited to the occurrence of natural disasters. In the event where such pollution or contamination occurs in respect of the water supplies or types or amounts of pollutants in the wastewater increase significantly as a result of environmental risks, we cannot assure you that we will be able to adequately and efficiently treat the wastewater or remove pollutants from wastewater. In such event, we could also be held liable for human exposure to dangerous

substances in water supplies or other environmental damage. Any of the foregoing could subject us to liability, which could materially and adversely affect our business, financial condition and operational results. These environmental risks will materially and adversely affect our business, financial performance and prospects.

We may also be subject to governmental sanctions and/or liquidated damages if our treated wastewater fails to meet applicable governmental standards due to excessive pollution of the inflow of wastewater, and such instances may lead to the suspension of our operations pending rectification. Such excessive pollution could also damage or accelerate the deterioration of our wastewater treatment facilities, and could materially and adversely affect our business, financial condition, results of operations and prospects.

Our Group may not be able to obtain an adequate and timely supply of utility at reasonable prices or at all

Operations of our Wastewater Treatment Plants depend on, amongst other things, the adequate and continuous supply of utility. Our operations require a significant and stable supply of utility, the use of which will further increase substantially as we expand our capacity. We cannot assure you that we will always have access to sufficient, continuous and stable supplies of utility in future to accommodate our requirements and planned business growth and that such power shortages will cause disruptions and delays in our operation schedules, possibly resulting in us being unable to comply with our obligations under the Concession Agreement. If this were to occur, our business, financial condition and operational results could be materially and adversely affected.

For the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, our cost of utility represented approximately 12.7%, 20.0%, 8.0% and 9.9% of our total cost of sales, respectively. We cannot assure you that the local public utility suppliers will continue to supply utility at affordable prices. As adjustment to our tariff are subject to approval by our customer pursuant to the terms of the Concession Agreement, we may not be able to pass on any increase in utility price to our customer in the form of tariff adjustment at all or in a timely manner and fully reflect and compensate us for the increase in our operating cost. If this were to occur, our business, financial condition and operational results could be materially and adversely affected.

Our Group has a concentrated supplier portfolio for our contemplated upgrading and expansion works and if our relationships with these suppliers deteriorate, our business, financial condition, results of operations and prospects could be materially and adversely affected

For the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, purchases from our five largest suppliers accounted for approximately 79.2%, 78.3%, 54.5% and 63.0% of our total purchases, respectively, and purchases from our largest suppliers accounted for 43.3%, 39.7%, 33.8% and 47.2% of our total purchases, respectively. Most of our major suppliers are construction companies which provide construction materials and construction services for our upgrading and expansion of the Wastewater Treatment Plants. We may experience a shortage of supply of the required materials or services and may not be able to find new suppliers which could provide services of a comparable quality and on comparable terms in a timely manner, or at all. If we fail to procure such new suppliers, we may not be able to complete the upgrading and expansion of our Wastewater Treatment Plants on schedule or at all, which could result in us failing to meet our customer's demand

and liable to pay liquidated damages for delay and may also giving rise to right of termination by our customer if the delay is severe and we are unable to rectify the situation within the prescribed period of time as allowed by our customer. As a consequence, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our Group is dependent on third parties for the supply of materials and services for repair and maintenance necessary for our day-to-day operations

Our business is significantly affected by the availability, cost and quality of the materials, which include chemicals for treating wastewater and parts such as equipment we need in order to operate and maintain our wastewater treatment facilities. In the event that certain major maintenance or repairs which are outside the expertise of our in-house team of technicians, we will have to source such services from external suppliers. Further, we require the continued support of certain equipment manufacturers to supply necessary services and parts to maintain our Wastewater Treatment Plants at reasonable cost. The prices and supply of chemicals and services depend on factors beyond our control, including but not limited to economic conditions, competition, availability of reliable suppliers and transportation costs in the PRC. If we are unable to procure the required chemicals or equipment, parts or services in a timely manner, or if the costs of these chemicals, equipment, parts and services exceed our budgeted cost, there may be a material and adverse effect on our business, financial condition and operational results.

As any revisions to our tariff relating to increase in operation costs in our daily operations are subject to consent from our customer pursuant to the terms of the Concession Agreement, we may not be able to pass on any increase in our materials and repair, maintenance or related costs to our customer in a timely manner and even if we are to be granted upward revisions in tariffs as a result of inflation, we cannot assure you that such revisions could fully reflect and compensate for the increase in our operating costs. If this were to occur, our business, financial condition, operational results could be materially and adversely affected. Please refer to "Business — Our suppliers" in this document for details.

In the event that our suppliers cease to be able to supply us the required chemicals, equipment or repair services, we may need to find new reliable suppliers and service providers and we cannot assure you that we will be able to procure a replacement in a timely manner or at all or at affordable prices. Failure to find a suitable replacement could cause a delay in the delivery of our chemicals or delay in repair and maintenance of our equipment, which could materially and adversely affect our business, financial condition and operational results. If any of our suppliers is unable to continue providing the chemicals we need for our wastewater treatment processes, or fail to supply the necessary services and components to maintain our equipment and facilities, at prices and on terms and conditions we consider acceptable, we may need to obtain these items from other suppliers and our business, financial condition and operational results could be materially and adversely affected as a result.

Our Group's insurance coverage may not adequately cover the risks related to our business operations

Our Group may be subject to liabilities against which we are not insured adequately or at all or liabilities against which we cannot insure. We maintain property insurance covering our wastewater treatment facilities. If significant property damage occurs to our wastewater treatment facilities due to natural disasters such as earthquake or tsunami, acts of war or terrorism or other events beyond our control, our insurance policies may not adequately cover the losses that we incur and our business may

be materially and adversely impacted, potentially leading to a loss of assets, lawsuits, employee compensation obligations or other forms of economic loss. We may also face the risk of loss or damage to our properties, machinery and inventories due to the occurrence of any of the above events. Furthermore, we are subject to hazards and risks that are normally associated with our operations, which are subject to interruption or damage by fire, power failure and power shortages, hardware and software failure, floods, natural disasters and other events beyond our control.

In addition, we cannot predict the continued availability of insurance at acceptable premiums or at all. Moreover, we may not be able to obtain certain types of insurance at a reasonable cost or at all. For example, insurance covering losses from natural disasters, epidemics, acts of war or terrorism is either unavailable or cost prohibitive. We cannot assure you that our insurance policies are sufficient to cover all risks associated with our business and operations. Losses incurred for liabilities not sufficiently covered by our insurance policies may have a material and adverse effect on our business, financial condition and operational results.

Our Group's preferential tax treatment may be unfavourably changed or discontinued

According to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Involving Comprehensive Utilisation of Resources* (關於印發《資源綜合利用產品和勞務增值税優惠目錄》的通知) promulgated by the Ministry of Finance and the State Administration of Taxation and effective from 1 July 2015, a taxpayer that provides labour services involving comprehensive utilisation of resources may enjoy the preferential tax treatment of VAT refund upon collection, and the VAT refund rate for wastewater treatment service is 70%. Currently, pursuant to the Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labour Services involving Comprehensive Utilisation of Resources* (關於印發《資源綜合利用產品和勞務增值税優惠目錄》的通知), TYW is eligible to enjoy the preferential VAT tax treatment in connection with the provision of its wastewater treatment services provided that TYW must pay the value-added tax first and subsequently 70% of the amount paid will be refunded to TYW from the local taxation authority.

Further, according to the Concession Agreement, TYW is eligible to receive compensation from Yinchuan Construction Bureau, being our customer for our wastewater treatment services, for additional operation cost incurred as a result of the imposition of VAT tax on wastewater treatment services during the concession period and therefore the remaining 30% of the VAT amount paid is also refunded to TYW by Yinchuan Construction Bureau.

We cannot assure you that the aforesaid preferential tax treatment and compensation that we currently enjoy will not be cancelled, or be unfavourably changed or discontinued, or that the approval for such preferential tax treatment and the value-add tax refund will be granted to our Group in a timely manner, or at all. Details of the preferential tax treatment we currently enjoy are set out in the section headed "Financial Information — Significant factors affecting operating results and financial condition of our Group — Our Group's preferential tax treatment may be unfavourably changed or discontinued" in this document. The termination or expiration of our preferential tax treatment or the imposition of additional taxes on us or our subsidiaries in the PRC may lead to an increase in our expenses and have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not enjoy the preferential tax treatment on value-added tax if we fail to the meet the relevant water quality standards in our wastewater treatment processes

According to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labour Services involving Comprehensive Utilisation of Resources* (關於印發《資源綜合利用產品和勞務增值税優惠目錄》的通知) promulgated by the Ministry of Finance and the State Administration of Taxation and effective from 1 July 2015, TYW is eligible to enjoy the preferential VAT tax treatment from 1 July 2015 on the condition that the treated wastewater released after the wastewater treatment process satisfies the applicable discharged water quality standards set out in the National Wastewater Treatment Standards or other applicable national or local standards. In the event that we fail to meet such standards due to excessive pollutant levels in the inflow of wastewater, or due to any other causes not within our control, even though we will report to the local government about such kind of incidents, we cannot assure you that the outcome will be favourable to us such that we would not be held accountable for the treated wastewater not meeting the required standards and thereby become unable to enjoy the aforesaid preferential tax treatment which could have a material adverse effect on our business, financial condition, results of operations and prospects.

RISKS RELATING TO BUSINESS OPERATIONS IN THE PRC

Our Group is subject to risks associated with changes in regulations for wastewater treatment services, and any failure to control the associated costs could harm our business

Our Group is engaged in an industry where regulatory standards play a critical role in affecting the demand for our services. In the normal course of our business operations, we are subject to various PRC laws and regulations relating to environmental and safety matters. In particular, our wastewater treatment services are required to meet effluent discharge standards imposed by the relevant environmental protection administration authorities. The relevant environmental protection administration authorities may impose more stringent standards in future which could increase our operational costs to meet such higher standards. Further, in accordance with relevant PRC labour laws and regulations, we are required to contribute to a number of employee social insurance schemes including medical, occupational injuries and pension insurance. Given the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources.

As these laws and regulations continue to evolve, we cannot assure you that the PRC government will not impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers. In addition, any changes in legislative, regulatory or industrial requirements may render certain of our wastewater treatment solutions obsolete. We may need to upgrade existing technologies and facilities to meet the standards imposed by the relevant regulatory authorities, which will require additional financial, human and other resources. All these could materially and adversely affect our business, financial condition and operational results.

PRC's economic, political and social conditions, as well as governmental policies, could materially and adversely affect our business, financial condition and operational results

Almost all of our assets are located in the PRC and all of our turnover is derived from our operations in the PRC. Accordingly, our business, financial condition and operational results are, to a significant degree, affected by the economic, political, social conditions and government policies in the PRC. The economy of the PRC differs from the economies of most of the developed countries in many aspects, including but not limited to:

— the amount and degree of the PRC government's involvement;

— growth rate and degree of development;

— uniformity in the implementation and enforcement of laws;

— content of and control over capital investment;

— control of foreign exchange; and

— allocation of resources.

The PRC's economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilise market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any material and adverse effect on our current or future business, financial condition or operational results.

In addition, 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. Our business, financial condition and operational results may be materially and adversely affected by the policies of the PRC government, such as measures to control inflation and to tighten its monetary policies, changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion. These actions, as well as future actions and policies of the PRC government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse impact on our business, financial condition and operational results.

A deterioration of overall market conditions and credit availability from lending institutions in the PRC may significantly affect our ability to secure and successfully implement new projects in future

Our ability to successfully grow our business operations in the PRC by tendering for the concession rights for operating and managing additional wastewater treatment plants depends on the overall macroeconomic conditions and other market conditions of the PRC and on the credit availability from lending institutions. Stricter lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our growth strategies. We cannot assure you that the PRC Government will not implement any measures to tighten lending standards or that, if any such measure is implemented, it will adversely affect our future results of operations or profitability.

Uncertainties with respect to the PRC legal system could materially and adversely affect our Group

Substantially all of our business is conducted in the PRC and is governed by PRC laws and regulations. Group companies that are located in the PRC are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic and environmental matters such as foreign investment, corporate organisation and governance, commercial transactions, taxation, trade and wastewater treatment. However, due to the fact that these laws and regulations have not been fully developed, and given the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the government agency or how or by whom an application or case is presented to such agency, we may receive less favourable interpretations of laws and regulations than our competitors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

We face uncertainties with respect to indirect transfers of equity interests in our PRC subsidiaries by our non-PRC holding companies

In February 2015, the Announcement on Certain Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-resident Enterprises* (《關於非居民企業間接轉讓財產企業所得税若干問題的公告》) ("**Circular No. 7**") was promulgated by SAT, which abolished certain provisions in the Notice on Strengthening the Administration of Enterprises Income Tax on Non-Resident Enterprises* (《關於加強非中國居民企業股權轉讓所得企業所得税管理的通知》) ("**Notice No. 698**") issued by SAT on 10 December 2009. On 17 October 2017, SAT promulgated the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises* (《國家税務總局關於非居民企業所得税源泉扣繳有關問題的公告》) ("**SAT Circular No. 37**") which became effective on 1 December 2017. The SAT Circular No. 37 abolished certain provisions of Circular No. 7 and the entire provisions of Notice No. 698 and provided clearer calculation methods on declaring tax.

According to Circular No. 7, when a non-resident enterprise (not including individuals or PRC resident enterprises) transfers the assets (including equity interests) in an overseas holding company, which directly or indirectly owns PRC taxable properties, including shares in a PRC company (or PRC Taxable Assets), for the purposes of avoiding PRC enterprise income taxes through an arrangement without reasonable commercial purpose, such indirect transfer should be reclassified and recognized to be a direct transfer of the assets (including equity interests) of a PRC resident enterprise in accordance with the EIT Law, unless the overall arrangements relating to an indirect transfer of PRC taxable assets fulfill one of the following conditions: (i) where a non-resident enterprise derives income from the indirect transfer of PRC taxable assets by acquiring and selling equity interests of a listed overseas company on a public market; and (ii) where the non-resident enterprise had directly held and transferred such PRC taxable assets, the income from the transfer of such PRC taxable assets would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement.

Therefore, a Shareholder buying and selling our Shares on a public market after the [REDACTED] is unlikely to be considered to indirectly transfer equity interest or other assets in any of our PRC subsidiaries held by our Company. Although the exemptions above are clarified in Circular No. 7, it remains unclear regarding the application and enforcement of Circular No. 7 and the related SAT notices and it remains uncertain whether such exemptions will be applicable to the transfer of our Shares or whether any future acquisition by us outside of the PRC involving PRC taxable assets will be reclassified by applying Circular No. 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC taxable assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities. Any such outcome could have a material adverse effect on our business, financial condition, results of operations and prospects.

Any future natural disasters, acts of God, outbreak of any communicable diseases in the PRC or any other epidemic may materially and adversely affect our business, financial condition and operational results

Our Group is subject to general economic and social conditions in the PRC. Natural disasters, epidemics, acts of war or terrorism and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. Some regions in the PRC are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome or H5N1 avian flu. 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 business, financial condition and operational result.

Fluctuations in the value of RMB may materially and adversely affect the value of dividends and other distributions by our PRC subsidiaries, our business and your investment

The value of RMB depends, to a large extent, on domestic and international economic, financial and political developments and the PRC's governmental policies, as well as supply and demand in the local and international markets. Since 1999, the conversion of RMB into foreign currencies, including the HK$, was based on exchange rates set and published daily by the PBOC in light of the previous day's inter-bank foreign exchange market rates in the PRC and the then current exchange rates on the global financial markets. For the year ended 31 December 2015, we experienced a net foreign exchange gain of approximately HK$1.9 million. For each of the two years ended 31 December 2016 and 2017 and for the four months ended 30 April 2018, we experienced net foreign exchange losses of approximately HK$0.7 million, HK$4.0 million and HK$2.5 million, respectively. For each of the two years ended 31 December 2015 and 2016, we recognised a loss under other comprehensive income due to currency translation differences of approximately HK$26.8 million and HK$37.9 million, respectively. For the year ended 31 December 2017 and the four months ended 30 April 2018, we recognised a profit under other comprehensive income due to currency translation differences of approximately HK$42.3 million and HK$27.4 million, respectively. The aforesaid net foreign exchange gains or losses were the result of our holding of foreign currencies such as US$, SG$, RM, RMB and HK$ arising from our equity financing. The said gain or loss under other comprehensive income due to currency translation

differences were the result of the translation of RMB being our functional currency to HK$ being our reporting currency. The RMB exchange rate could fluctuate widely against the HK$ or any other foreign currency in future. Any depreciation of RMB will materially and adversely affect the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms.

Moreover, we will need to convert part of proceeds denominated in HK$ from the [REDACTED] into RMB. The fluctuation in the exchange rate between the RMB and HK$ may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Dividends payable by us to our foreign investors and gain on the sale of the Shares by our foreign investors may become subject to withholding income tax under PRC tax laws

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 "Regulatory Overview — Taxation — Enterprise Income Tax" in this document 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.

PRC regulations on direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the [REDACTED] to make additional contributions or loans to our PRC subsidiaries

Any capital contribution or loans that we, as a company incorporated in the Cayman Islands, make to our PRC subsidiaries, including from the net proceeds of the [REDACTED], are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment that our PRC subsidiaries are approved to make under the relevant PRC laws and the registered capital of the relevant PRC subsidiary, and any such loans must be registered with the local branch of SAFE. In addition, our additional capital contributions to our PRC subsidiaries must be approved by MOFCOM or its local counterparts. We cannot assure you that we will be able to obtain these registrations or approvals on a timely basis, or at all. If we fail to obtain such registrations or approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be materially and adversely affected, which could in turn affect our PRC subsidiaries' liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments and in turn may materially and adversely impact our business, financial condition and operational results.

RISKS RELATING TO THE [REDACTED]

An active trading market in the Shares may not develop, which could have a material and adverse effect on our Share price and on your ability to sell your Shares

Prior to the [REDACTED], no public market existed for the Shares. The [REDACTED] will be determined based on negotiations between our Company and the [REDACTED] (for themselves and on behalf of the [REDACTED]) and may differ significantly from the market price for the Shares following the completion of the [REDACTED] and upon [REDACTED]. We have applied to the Stock Exchange for the [REDACTED]. Due to a gap between pricing and trading of the [REDACTED] and that the [REDACTED] will not commence trading on the Stock Exchange until the [REDACTED], the initial trading price of the [REDACTED] could be lower than the [REDACTED]. In addition, there is no assurance that the [REDACTED] will result in the development of an active and liquid public trading market for the Shares. If an active public market for the Shares does not develop, the Shares could trade at a price lower than the [REDACTED] at and after [REDACTED], and you may not be able to resell your Shares for an extended period of time, if at all.

The trading volume and market price of the Shares may be volatile, which could result in substantial losses for investors who purchase the Shares in the [REDACTED]

The price and trading volume of the Shares may be highly volatile. Factors, some of which are beyond our control, such as variations in our turnover, earnings and cash flow, strategic alliances or acquisitions, environmental accidents we may suffer, addition or departure of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation, or raw materials could cause large and sudden changes in the volume and price at which the Shares will be traded. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced volatility in the past, and it is possible that the Shares may be subject to changes in price not directly related to our performance.

Dilution from the issue of additional Shares in future

We may need to raise additional funds in future to finance expansion and upgrading of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity of our Company, you may experience dilution in the net tangible asset value per Share if such additional Shares are issued at a price lower than the net tangible asset value per Share at the time of their issue.

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities. The sale of additional equity securities could result in additional dilution to our Shareholders.

Future offerings or sales of the Shares could materially and adversely affect the prevailing market price of the Shares and result in dilution

Future offerings or sales of the Shares by us or our Controlling Shareholders, or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of the Shares to decline. For more details regarding restrictions that may apply to future sales of the Shares by our Controlling Shareholders, please refer to "Underwriting" in this document. After

these restrictions lapse, the market price of the Shares may decline as a result of future sales of substantial amounts of Shares or other securities relating to the Shares in the public market, the issuance of new Shares or other securities relating to the Shares (including the issuance of new Shares pursuant to the exercise of share options which may be granted by us) or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in future at a time and at a price which we deem appropriate. In addition, if we issue additional Shares or share options in future, you may experience further dilution.

Impact of granting options under the Share Option Scheme

We have adopted the Share Option Scheme pursuant to which we will in future grant our Directors and employees options to subscribe for Shares. No options had been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. The fair value of the options at the date on which they were granted with reference to the independent valuer's valuation will be charged as share-based compensation, which may materially and adversely affect our operational results. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of our Shareholders and the net asset value per Share. For details regarding the Share Option Scheme, please refer to "Statutory and General Information — D. Share Option Scheme" in Appendix IV to this document.

We may be unable to pay any dividend on the Shares

We will only pay dividends out of our accumulated realised profits so far as not previously utilised by distribution or capitalisation, less our accumulated realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made. Our ability to pay dividends will therefore depend on our ability to generate sufficient accumulated net realised profits.

Our Company is a holding company incorporated under the laws of the Cayman Islands. All of our business operations are conducted through our subsidiaries in the PRC. Hence, the availability of funds to us to pay dividends to our Shareholders will depend on dividends received from our operating subsidiaries. If these subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiaries only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their after tax profits based on PRC accounting standards each year to their reserve funds in accordance with the requirements of relevant laws and provisions in their respective articles of association. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. For details regarding our declaration and payment of dividends, please refer to "Financial Information — Dividend" in this document.

Our ability to declare dividends in relation to our Shares will also depend on our future financial performance, which, in turn, depends on our success in implementing our business strategies and expansion plans and on financial, competitive, regulatory, and other factors, general economic conditions, demand for and prices of our services, costs of supplies and other factors specific to our industry, many of which are beyond our control. Other factors such as cash flow conditions, restrictions on distributions contained in our subsidiaries' articles of association, restrictions contained in their debt

instruments, withholding tax and other arrangements will also affect our subsidiaries' ability to make distributions to us. These restrictions could reduce the amount of distributions that we receive from our subsidiaries, which in turn would restrict our ability to fund group operations and pay dividends on the Shares. In addition, restrictive covenants in our credit facilities or other agreements that we may enter into in future may also restrict the ability of our operating subsidiaries to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and as a result future dividends may not be declared or paid.

Investors for our Shares may face difficulties in protecting their interests under Cayman Islands law, which may provide different remedies to minority shareholders when compared with the laws of Hong Kong or other jurisdictions

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles of Association. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For detailed information, please refer to "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix III to this document.

We cannot guarantee the accuracy of forecasts, other statistics and information derived from various official government publications or obtained from CIC with respect to the PRC economy and the PRC wastewater treatment services industry contained in this document

Forecasts, other statistics and information in this document relating to the PRC, the PRC economy and the PRC wastewater treatment services industry have been derived from various official PRC government publications or obtained from CIC. We believe that these publications are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality or reliability of the source materials. They have not been prepared or independently verified by us, the Sponsor, the [REDACTED] or any of our or their respective affiliates or advisers and therefore, we make no representation as to the accuracy of such forecasts, statistics and information, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the forecasts, statistics and information in this document may be inaccurate or may not be comparable to forecasts, statistics and information produced with respect to other economies. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Hence, you should not unduly rely upon the forecasts, statistics and information with respect to the PRC, the PRC economy and the PRC wastewater treatment services industry contained in this document.

In preparation for the [REDACTED], we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Our principal business operations and assets are primarily located, managed and operated in the PRC. Our executive Director, Mr. Wong Kok Sun, together with the senior management members of our Group are based in the PRC. For the purpose of management and operations of our Group, which are mainly in the PRC, the appointment of additional executive Director to reside in Hong Kong would not only increase its administrative expenses but would also reduce the effectiveness of our Board's management, in particular, when business decisions are required to be made within a short period of time. We therefore do not, and in the foreseeable future will not, have a management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, [and the Stock Exchange has agreed to grant,] a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

(a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, namely Mr. Wong Kok Sun (our executive Director) and Ms. Tsui Sum Yi (our company secretary). The authorised representatives will act as our principal channel of communication with the Stock Exchange. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by the Stock Exchange by telephone, facsimile and/or email to deal promptly with any enquiries which may be made by the Stock Exchange. Each of the authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;

(b) each of the authorised representatives will have all necessary means to promptly contact all the Directors (including our non-executive Director and independent non-executive Directors) and the senior management team at all times as and when the Stock Exchange wishes to contact them on any matters. We will implement a policy whereby:

    (i) each Director shall provide his mobile phone number, office phone number (if applicable), facsimile number (if applicable) and email address to the authorised representatives;

    (ii) in the event that a Director expects to travel and or otherwise be out of office, he shall provide his phone number contactable by the authorised representatives; and

    (iii) each Director and the authorised representatives must provide his mobile phone number, office phone number (if applicable), facsimile number (if applicable) and email address to the Stock Exchange;

(c) if the circumstances require, meetings of our Board can be convened and held in such manner as permitted under the Articles of Association at short notice to discuss and address any issue with which the Stock Exchange is concerned in a timely manner;

(d) a compliance adviser has been appointed by our Company to provide us with professional advice on continuing obligations under the Listing Rules, and to act at all times, in addition to the two authorised representatives of our Company, as our additional channel of communication with the Stock Exchange for the period commencing on the [REDACTED] and ending on the date on which our Company publishes its annual report in respect of its first full financial year commencing after the [REDACTED] pursuant to Rule 3A.19 of the Listing Rules;

(e) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the compliance adviser, or directly with our Directors within a reasonable time frame. We shall promptly inform the Stock Exchange of any changes on the authorised representatives or the compliance adviser; and

(f) all our Directors (including our independent non-executive Directors) who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to travel freely to Hong Kong and will be able to meet with the Stock Exchange upon a reasonable short notice.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
Chairman and Non-executive Director		
Mr. Lim Chin Sean	Level 29, Menara LGB No. 1 Jalan Wan Kadir Taman Tun Dr Ismail 60000 Kuala Lumpur Malaysia	Malaysian
Executive Director		
Mr. Wong Kok Sun	1–3 Condo Seri Duta 11 Jalan Langgak Duta Taman Duta 50480 Kuala Lumpur Malaysia	Malaysian
Independent non-executive Directors		
Mr. Tan Yee Boon (陳于文)	33–4, Casa Elita, Jalan Sungei 2 Taman Seputeh 58000 Kuala Lumpur Malaysia	Malaysian
Mr. Hew Lee Lam Sang	No. 61 Jln Athinahapan 1 Tmn Tun Dr Ismail 60000 Kuala Lumpur Malaysia	Malaysian
Mr. Tam Ka Hei Raymond (譚家熙)	Flat E, 24/F, The Royal Court 9M Kennedy Road Wanchai Hong Kong	Chinese

See "Directors and Senior Management" in this document for more information on our Directors and members of senior management.

PARTIES INVOLVED IN THE [REDACTED]

Sponsor	**Red Sun Capital Limited** Room 3303, 33/F, West Tower Shun Tak Centre 168–200 Connaught Road Central Sheung Wan Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Financial Adviser	**Opus Capital Limited** 18/F, Fung House 19–20 Connaught Road Central Central Hong Kong
Legal Advisers to the Company	*As to Hong Kong Law* **Loong & Yeung Solicitors** Room 1603, 16/F China Building, 29 Queen's Road Central Central, Hong Kong

	As to PRC Law **Commerce & Finance Law Offices** 6F NCI Tower, A12 Jianguomenwai Avenue Beijing 100022 PRC
	As to Cayman Islands Law **Appleby** 2206–19 Jardine House 1 Connaught Place Central Hong Kong
[REDACTED]	[REDACTED]
Auditors and Reporting Accountants	**PricewaterhouseCoopers** 22/F, Prince's Building Central Hong Kong
Industry Consultant	**China Insights Industry Consultancy Limited** 10/F Tomorrow Square 399 West Nanjing Road Huangpu District Shanghai PRC
Valuer	**Jones Lang LaSalle Corporate Appraisal and Advisory Limited** 6/F Three Pacific Place, 1 Queen's Road East, Admiralty Hong Kong

[REDACTED] [REDACTED]

Note: Opus Capital is the financial adviser to our Company in relation to the [REDACTED]. Principal functions performed by Opus Capital include reviewing relevant documentation, advising our Company on, amongst other things, the business, financial positioning and future business development of our Group. The role of Opus Capital is different from that of the Sponsor in that the role of Opus Capital focuses more on the provision of corporate finance advisory services relating to our business, financial positioning and future business development; whereas the role of Sponsor is to ensure that the application for [REDACTED] fulfills the requirements of, inter alia, the Listing Rules and other applicable requirements. The Sponsor has performed its own due diligence and undertaken the overall responsibility of the [REDACTED] exercise.

CORPORATE INFORMATION

Registered office in Cayman Islands	P.O. Box 1350, Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters	B-301 Shanghai Jiahua Business Centre 808 Hongqiao Road Shanghai 200030 PRC
Principal place of business in Hong Kong	Room 1603, 16/F China Building, 29 Queen's Road Central Central, Hong Kong
Company website	**www.tilenviro.com** *(Note: information on this website does not form part of the document)*
Company secretary	Ms. Tsui Sum Yi *(ICSA, HKICS)* Room 1901, 19th Floor, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Authorised Representatives (for the purposes of the Listing Rules)	Mr. Wong Kok Sun 1–3 Condo Seri Duta 11 Jalan Langgak Duta Taman Duta 50480 Kuala Lumpur Malaysia Ms. Tsui Sum Yi Room 1901, 19th Floor, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Audit committee	Mr. Hew Lee Lam Sang *(Chairman)* Mr. Lim Chin Sean Mr. Tam Ka Hei Raymond (譚家熙)
Remuneration committee	Mr. Tan Yee Boon (陳于文) *(Chairman)* Mr. Tam Ka Hei Raymond (譚家熙) Mr. Hew Lee Lam Sang
Nomination committee	Mr. Lim Chin Sean *(Chairman)* Mr. Tam Kai Hei Raymond (譚家熙) Mr. Tan Yee Boon (陳于文)

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The information presented in this section is, including certain facts, statistics and data, derived from the CIC Report, which was commissioned by us and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Sponsor, [REDACTED], any of our or their respective directors, officers or representatives or any other person involved in the [REDACTED] (other than CIC) and no representation is given as to its accuracy, completeness or fairness (other than by CIC). The information and statistics may not be consistent with other information and statistics compiled within or outside of the PRC. As a result, excessive reliance on the information contained in this section shall be avoided.

SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company and an Independent Third Party, to conduct an analysis of, and to report on wastewater treatment industry in the PRC, Ningxia and Yinchuan, being the capital city of Ningxia, for the period from 2013 to 2022. The CIC Report has been prepared by CIC independent of our influence. The fee payable to CIC for preparing the CIC Report is HK$400,000, which we believe reflects the market rate for similar services. CIC is a consulting firm founded in Hong Kong. It provides professional industry consulting services across multiple industries. CIC's services include industry consulting services, commercial due diligence and strategic consulting.

Our Directors are of the view that the information set forth in this section is reliable and not misleading as the information was extracted from the CIC Report and CIC is an independent market research company with extensive experience in their profession. The information and data collected by CIC have been analysed, assessed and validated using CIC's in-house analysis models and techniques. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analysis of market data obtained from several publicly available data sources, such as releases from the governments of the research countries, company reports, independent research reports and CIC's own internal database. The methodology used by CIC is based on information gathered from multiple levels and allows such information to be cross-referenced for accuracy. On the basis of the aforementioned, we consider the data and statistics to be reliable.

ASSUMPTIONS

The CIC Report contains a variety of market projections which were produced with the following key assumptions: (i) the overall social, economic, and political environment in the research scope regions are expected to remain stable during the forecast period; (ii) related key industry drivers are likely to propel continued growth in wastewater treatment industry throughout the forecast period, including the favourable policy support, the continuous urbanization process, the sufficient public and private capital support, and the rising wastewater treatment tariff; and (iii) there is no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way.

The CIC Report mainly focuses on the wastewater treatment industry in the PRC, Ningxia and Yinchuan. Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the date of the relevant data contained in the CIC Report which may qualify, contradict or have an impact on the information in this section.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report. Parameters used in the CIC Report include: (i) water consumption volume; (ii) municipal wastewater discharge volume; (iii) municipal wastewater treatment volume and treatment rate; and (iv) cost composition indices of electricity, raw materials, and wage.

MACROECONOMIC ENVIRONMENT IN THE PRC, NINGXIA AND YINCHUAN

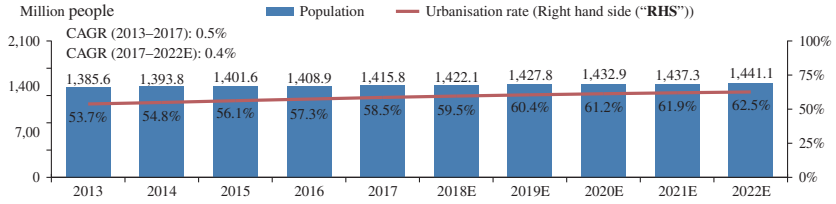
Overview of macroeconomic environment in the PRC, Ningxia and Yinchuan

The PRC's economic growth has been readjusted to a sustainable level, with its real GDP growth rate expected to remain above 6.0% from 2017 to 2022; whereas, Ningxia and Yinchuan's economic growth was and is expected to remain above the national average. Increasingly higher consumption levels, continuous progress towards increased urbanisation, the maturity of economic restructuring and the implementation of the 13th Five-Year Plan (《"十三五"規劃》), which is a series of social and economic development blueprints drafted by central, provincial, local and district governments of the PRC for the period between 2016 and 2020, are expected to support continuous economic growth in Ningxia and Yinchuan. With an annual real GDP growth rate target of 7.5% and 8.0% set for Ningxia and Yinchuan, respectively from 2016 to 2020, the nominal GDP for Ningxia and Yinchuan is expected to reach RMB498.6 billion and RMB284.2 billion by 2022, respectively.

The PRC's population has remained stable from 2013 to 2017, with an increasing urbanisation rate from 53.7% in 2013 to 58.5% in 2017. Between 2013 and 2017, Ningxia's population increased from 6.54 million people to 6.82 million people, representing a CAGR of 1.0%. Yinchuan's population meanwhile increased from 2.08 million people in 2013 to 2.23 million people in 2017, representing a CAGR of 1.8%. Yinchuan is one of the largest cities in the northwest of the PRC and its urbanisation rate was 77.1% in 2017, which was notably higher than the average urbanisation rate of 58.5% in the PRC.

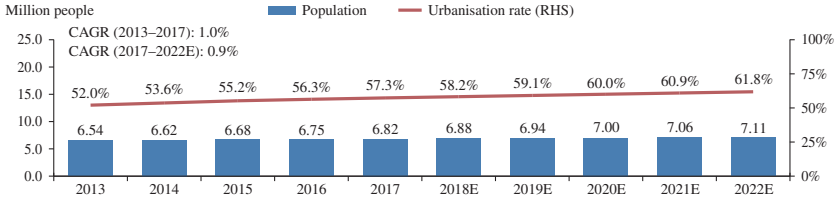
The steady development of the economy and the relatively higher population growth and urbanisation rate in Ningxia and Yinchuan are expected to promote a higher demand in terms of both industrial and domestic water supply, resulting in higher wastewater discharge volume, hence, the demand for wastewater treatment services is expected to increase in the near future.

Population and urbanisation, the PRC, 2013–2022E



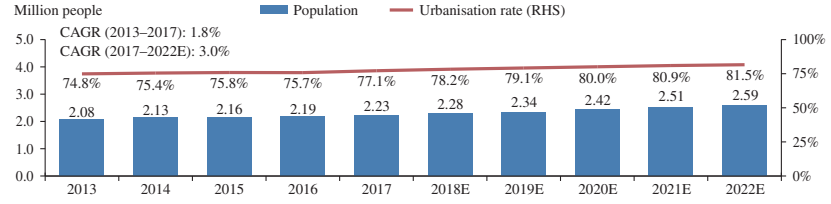
Source: International Monetary Fund, CIC

Population and urbanisation, Ningxia, 2013–2022E



Source: National Bureau of Statistics of China, CIC

Population and urbanisation, Yinchuan, 2013–2022E



Source: National Bureau of Statistics of China, CIC

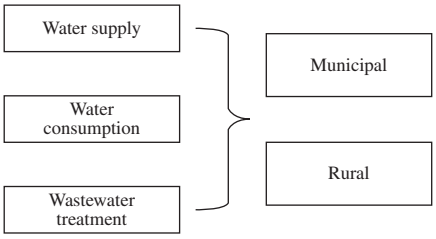
WATER UTILITIES INDUSTRY

Definition of the water utilities industry

The water utilities industry in the PRC provides clean water and wastewater treatment services mainly to agricultural, industrial, and domestic sectors of the economy. More specifically, the water utilities industry involves raw water collection and transportation, water treatment and supply, water conservation, water drainage, wastewater treatment and the use of recycled water.

Categorization of the water utilities industry by administrative divisions

The water utilities industry can be divided into either municipal or rural use. The water utilities systems in the PRC are more developed in municipal areas as compared with rural areas, with the water supply penetration rate having reached 83.9% for municipal areas compared with a penetration rate of 71.9% for rural areas at the end of 2016. Municipal use can be further divided into urban and county use.



Overview of water resource in the PRC

Water shortages are affecting the PRC's economic and social development. The volume of water resources per capita in the PRC was only 2,061.7 cubic metres in 2017 and ranked only 110th in the world. Water resources are not evenly distributed throughout the PRC. In particular, Southern China has more water resources in terms of its water volumes as compared with Northwestern China, where Yinchuan, Ningxia is located in. As a result, there is a pressing need to further develop the water utilities industry, especially in terms of a higher utilisation rate for reused water.

WASTEWATER TREATMENT INDUSTRY

Discharge standards of the wastewater treatment industry in the PRC, Ningxia and Yinchuan

Under the National Wastewater Discharge Standards (GB18918–2002) which was jointly promulgated by MEP and AQSIQ issued in December 2002 and amended in May 2006, wastewater discharged from municipal wastewater treatment plants are classified into three classes of wastewater discharge standards, namely Class I (一級), Class II (二級), and Class III (三級). Class I can be further divided into Class IA (一級A) and Class IB (一級B). As of December 2017, Class IA is the highest standard under the National Wastewater Discharge Standards. In January 2016, the government of Ningxia announced the requirement that all the wastewater treatment plants that are newly constructed after 1 January 2016 had to meet the Class IA, while all the existing treatment plants had to be upgraded to the Class IA.

The Surface Water Quality Standards (GB3838-2002) jointly promulgated by MEP and AQSIQ in 2002 is applicable to the surface water bodies such as rivers, lakes and reservoirs within the PRC. Water resources that meet Surface Water Quality Standard Class IV (四類水標準) are generally suitable for industrial use (工業用水) and entertainment use (娛樂用水) where such water does not come into contact with the human bodies, e.g., water used in scenery locations and fountains, and is a water standard higher than Class IA in the National Wastewater Discharge Standards. In recent years, a wastewater treatment discharge standard close to Surface Water Quality Standard Class IV is imposed on a number of advanced wastewater treatment plants in the PRC with a small amount of parameters below the standards set for Surface Water Quality Standard Class IV. Typically, the treated wastewater which meets such kind of standard being close to Surface Water Quality Standard Class IV is also permitted to be used for industrial and entertainment water use. In connection with the expansion of capacity for Yinchuan Wastewater Treatment Plant 4 as approved by the local governmental authorities in April 2018, the local government of Yinchuan has adopted the standard of discharge of the additional

capacity of 100,000 cubic meters per day to be Quasi Surface Water Standard Class IV (準四類水標準) which is a standard of water with parameters set to be close to Surface Water Quality Standard Class IV, and such water is intended be used for water replenishment at scenery locations, street flushing and landscaping purposes.

Wastewater treatment tariff

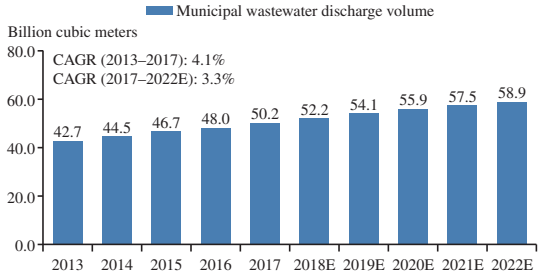
In the PRC, the consumer and commercial wastewater discharge tariff payable by residents and enterprises is different from wastewater treatment tariff charged by wastewater treatment plants with the government. The tariffs that are charged by wastewater treatment plants are normally pre-agreed in the concession agreement with the local government. The tariff determination and adjustment mechanism take into account factors, including social indices such as Consumer Price Index (CPI), Producer Price Index (PPI), as well as the construction and raw materials costs incurred by the wastewater treatment plant. Thus, such tariffs usually vary between different areas as well as different wastewater treatment plants.

Municipal wastewater treatment industry in the PRC

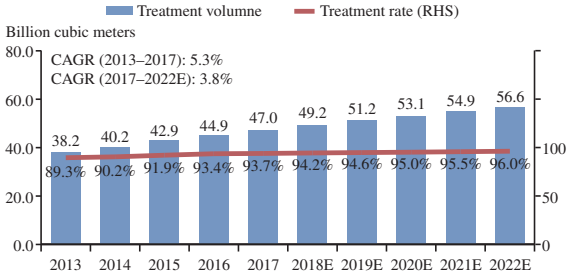
Between 2013 and 2017, the total municipal wastewater discharge volume in the PRC increased from 42.7 billion cubic meters to 50.2 billion cubic meters, representing a CAGR of 4.1%. During the same period, the total municipal wastewater treatment volume increased from 38.2 billion cubic meters to 47.0 billion cubic meters, representing a CAGR of 5.3%. The treatment rate for municipal wastewater also improved, increasing from 89.3% to 93.7%.

With a rising municipal wastewater discharge volume in the PRC as well as an improved treatment rate, the total municipal wastewater treatment volume in the PRC is expected to reach 56.6 billion cubic meters by 2022, with a CAGR of 3.8% between 2017 and 2022.

Municipal wastewater discharge volume, the PRC, 2013–2022E



Municipal wastewater treatment volume and treatment rate, the PRC, 2013–2022E



Source: CIC

Wastewater treatment industry in Ningxia

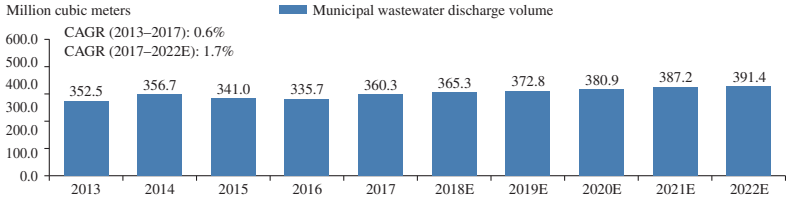
In Ningxia, municipal wastewater is mainly treated by two types of facilities, including wastewater treatment plants and other wastewater treatment facilities. Other wastewater treatment facilities refer to relatively smaller-scale wastewater treatment stations that are usually installed in residential areas and owned by the local government and in industrial facilities which are owned by the individual enterprise. Between 2013 and 2017, the total municipal wastewater discharge volume in Ningxia increased from 352.5 million cubic meters to 360.3 million cubic meters, representing a CAGR of 0.6%. During the same period, the total municipal wastewater treatment volume increased from 306.1 million cubic meters to 336.2 million cubic meters, representing a CAGR of 2.4%. The treatment rate for municipal wastewater increased from 86.8% to 93.3% over the same period. From 2013 to 2017, the treatment volume of wastewater treated by wastewater treatment plants in Ningxia increased from 224.2 million cubic meters to 277.4 million cubic meters, representing a CAGR of 5.5%.

The municipal wastewater discharge volume of Ningxia experienced a drop from 2013 to 2016, which was mainly caused by the water conservation plans and strategies that were implemented by the local government. However, from the year of 2017, the municipal wastewater discharge volume started to increase due to the economic growth, population growth and higher urbanisation rate that led to rising water consumption volume.

The government of Ningxia has been making efforts on expanding and upgrading existing wastewater treatment plants, and building new wastewater treatment plants, as result of which the wastewater treatment industry in Yinchuan (銀川市), Wuzhong (吳忠市) and Shizuishan (石嘴山市), being the three major cities of Ningxia, had experienced rapid development and expansion from 2013 to 2017, while other treatment facilities, i.e. those relatively smaller-scale wastewater treatment stations in residential area and industrial facilities had been on a decreasing trend. This was mainly due to those smaller-scale wastewater treatment stations do not have the economies of scale and professional management compared to wastewater treatment plants. Accordingly, the majority proportion of municipal wastewater discharged in Ningxia is expected to be treated by wastewater treatment plants in the foreseeable future. In addition, according to the 13th Five-Year Plan (《"十三五"規劃》) of Ningxia, the wastewater treatment rate of Ningxia is targeted to reach 95% by 2020. Thus, the rising trend of municipal wastewater treatment volume in Ningxia is expected to continue in the near future.

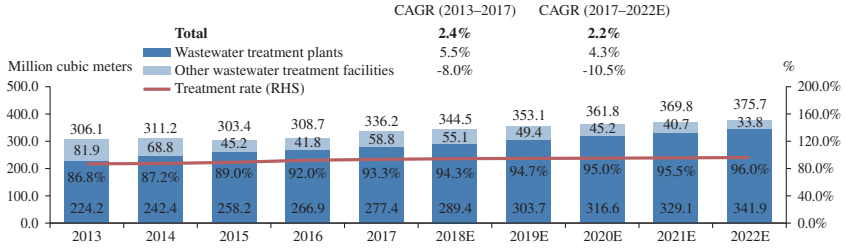
The total municipal wastewater treatment volume in Ningxia is expected to reach a further 375.7 million cubic meters by 2022, with a CAGR of 2.2% between 2017 and 2022. The total treatment volume handled by wastewater treatment plants in Ningxia is also expected to reach 341.9 million cubic meters by 2022, with a CAGR of 4.3% between 2017 and 2022.

Municipal wastewater discharge volume, Ningxia, 2013–2022E



Source: CIC

Municipal wastewater treatment volume and treatment rate, Ningxia, 2013–2022E



Source: CIC

Wastewater treatment industry in Yinchuan

Yinchuan is located on the upstream of the Yellow River, with the wastewater discharged from Yinchuan having a large impact on downstream cities. Moreover, a large number of industrial enterprises are located in Yinchuan, and 80% of its shallow groundwater* (淺層地下水) was found to be polluted as of 2005. As one of the critical measures to improve the water body quality, it was an important task for the government to construct and expand the capacities of wastewater treatment plants.

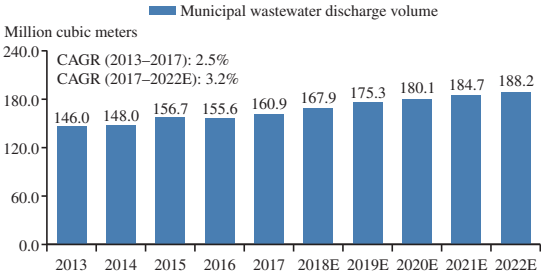
The first wastewater treatment plant in Yinchuan began operations in 2002. Over the years, an additional seven plants have been built. As of December 2017, there were eight wastewater treatment plants in Yinchuan with seven in operation, operated and managed by five wastewater treatment companies. In recent years, wastewater treatment plants in Yinchuan continue to expand their treatment capacities and upgrade discharge standards in order to meet the increasing municipal wastewater discharge volume as well as the rising discharge standard requirement of the local government.

Between 2013 and 2017, Yinchuan's total municipal wastewater discharge volume experienced a steady increase. However, a slight drop occurred in 2016 due to the commencement of transition and improvement works for industrial plants located in the Xixia District (西夏區), which is a municipal district in Yinchuan. The slight drop of the discharge volume did not affect the growth of the wastewater treatment rate and the treatment volume in Yinchuan. Between 2013 and 2017, the total municipal wastewater treatment volume increased from 135.8 million cubic meters to 154.4 million cubic meters, representing a CAGR of 3.3%. During the same period, the wastewater treatment rate in Yinchuan increased from 93.0% to 96.0%.

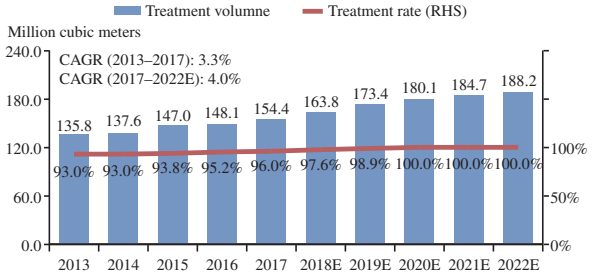
In order to protect the Yellow River from further pollution, MEP has set strict wastewater discharge standards for cities located along the Yellow River. As a city that locates on the upstream of the Yellow River, the government of Yinchuan implemented a new set of plans regarding wastewater treatment in 2015. Specifically, the government of Yinchuan set goals for resolving water problems associated with black, foul-smelling water by 2020, and has set a target to reach a 100% wastewater treatment rate by 2020. On the other hand, the population and urbanisation rates of Yinchuan are both expected to increase steadily from 2017 to 2022. Hence, the demand for wastewater treatment in Yinchuan is expected to rise in the near future.

By 2022, the total municipal wastewater treatment volume in Yinchuan is expected to reach 188.2 million cubic meters, with a CAGR of 4.0% between 2017 and 2022.

Municipal wastewater discharge volume, Yinchuan, 2013–2022E



Municipal wastewater treatment volume and treatment rate, Yinchuan, 2013–2022E



Source: CIC

Drivers of the wastewater treatment industry in the PRC, Ningxia and Yinchuan

(i) **Favourable policy support:** The 13th Five-Year Wastewater Treatment and Recycling Facilities Construction Plan* (《"十三五"全國城鎮污水處理及再生利用設施建設規劃》) specifically sets the targets relating to the wastewater treatment which include (i) targeting at a municipal wastewater treatment rate of 95% for all cities by 2020; (ii) investing an amount of approximately RMB193.8 billion in the construction of new wastewater treatment plants and improving wastewater discharge standards between 2016 and 2020; (iii) increasing the total wastewater treatment capacity of wastewater treatment plants by 50.2 million cubic meters per day; and (iv) improving the discharge standard of a total wastewater treatment capacity of 42.2 million cubic meters per day. Plans for Water Pollution Prevention and Control Projects in Key Drainage Basins (2016 to 2020)* (《重點流域水污染防治規劃(2016–2020年)》) (the "**Plan**") also lays down five key tasks ranging from prevention and control of industrial pollution, municipal pollution, agricultural and countryside pollution, ecological conservation of river basins, to the environmental protection of drinking water sources. The Yellow River is one of the key basins to be tackled by the Plan against water pollution and Ningxia is a key province which locates on the upstream of the Yellow River drainage basin. For these reasons, the government of Ningxia views surface water treatment as one of its major tasks in recent years and will continue its effort to improve the water quality in the near future. Wastewater treatment is a vital segment for surface water treatment, and thus with the support from policies and the government, the wastewater treatment industry of Ningxia and Yinchuan is expected to grow steadily in the future.

(ii) **Continuous urbanisation process:** The PRC's urbanisation rate has increased rapidly, and is projected to reach 62.5% by 2022. The urbansition rate for Ningxia is slightly lower than that of the PRC, but is expected to increase from approximately 57.3% in 2017 to approximately 61.8% in 2022. Yinchuan is one of the largest cities in the north-western region of the PRC, and had a high urbanisation rate of 77.1% in 2017 and is targeted to reach 81.5% by 2022. A growing urban population is expected to promote higher industrial and domestic water consumption. As a result, with a rising volume of wastewater being discharged as well as an improving wastewater treatment rate, the demand for wastewater treatment in Yinchuan is expected to further increase between 2017 and 2022.

(iii) **Sufficient public and private capital support:** Since 2014, the government authorities in the PRC have been promoting the PPP (Public-Private-Partnership) model for the implementation and development of infrastructure, public utilities and environmental protection projects. PPP projects can be categorized into eight sectors, namely municipal engineering* (市政工程), ecological conservation* (生態建設和環境保護), government infrastructure, environment, urban development, transportation* (交通運輸), tourism, and others. The construction and operation of wastewater treatment plants fall under the municipal engineering segment. From the end of 2016 to the end of 2017, the accumulative number of PPP projects in the PRC increased from 11,260 to 14,424, at an annual growth rate of 28.1%. As of the end of 2017, municipal engineering* (市政工程), transportation* (交通運輸) and ecological conservation* (生態建設和環境保護) were the three largest categories in terms of the number of approved PPP projects, representing approximately 37.5%, 14.1% and 7.6%, respectively. As for Ningxia, an accumulative number of 140 projects have been approved by the end of 2017, with municipal engineering, ecological conservation and transportation being the three largest project categories. In 2018, the government of Ningxia plans to further promote the PPP model in a larger geographical coverage. As a result, an increasing number of wastewater treatment plants is expected to be available for private sector participation in the near future, and the wastewater treatment industry in Ningxia is expected to further develop.

(iv) **Rising wastewater treatment tariff:** The wastewater treatment plants in Ningxia charge wastewater treatment service fees with the local government according to pre-agreed treatment tariffs and tariff revision mechanism specified in the concession agreements. The wastewater treatment tariff revision mechanism mainly takes into account factors, including the change of social indices such as Consumer Price Index (CPI) and Producer Price Index (PPI), construction costs and raw materials costs incurred by the wastewater treatment plant. With the strong growth of Ningxia's economy and the continuous upgrading and expansion of the wastewater treatment facilities, the wastewater treatment service fees in Ningxia are expected to continue to grow in future.

Future trends of the wastewater treatment industry in the PRC, Ningxia and Yinchuan

(i) **Higher treatment rate and discharge standards:** The wastewater treatment rate in the PRC is set to reach 95% or above according to the 13th Five-Year Plan (《"十三五"規劃》), while Yinchuan has adopted a higher treatment rate target of 100% by 2020. Apart from a higher treatment rate, higher discharge standards are also expected in future. Based on the discharge standards promulgated by the Action Plan for Prevention and Control of Water Pollution* (《水污染防治行動計劃》), since the quality of a large proportion of surface water in the PRC is still substantially below the Surface Water Quality Standard Class IV, the PRC government is aiming at higher quality of discharge to be achieved by the wastewater treatment industry, with the ultimate aim of attaining a reusable level in respect of all treated wastewater.

(ii) **Higher recycled water usage rate:** Recycled water resources are categorized as "unconventional water resources" (非常規水資源) according to the Guidance on Incorporating Unconventional Water Sources into Integrated Water Allocation* (《關於非常規水納入水資源統一配置的指導意見》), and have become more important in the PRC in recent years. As the 13th Five-Year Plan (《"十三五"規劃》) has set an RMB15.8 billion investment budget for water recycling, the future potential of supply of recycled water is expected to become more apparent in future.

(iii) **More advanced technologies and equipment:** Higher treatment efficiencies, more reliable wastewater treatment processes, and stricter discharge standards are all expected to be the future trends in the wastewater treatment industry. The aim is to resolve on-going issues related to the increasingly severe water pollution in the PRC, especially in less developed areas. As a result, more advanced treatment technologies and equipment are expected to be adopted by wastewater treatment plants in Ningxia and Yinchuan.

(iv) **Further industry expansion:** The steady development of the economy and the growing urban population of the PRC, Ningxia and Yinchuan are expected to promote a higher demand in terms of both industrial and domestic water consumption, as well as the wastewater discharge volume. As a result, there will be an increasing demand for wastewater treatment services. Moreover, with capital support from both direct government investment and the private sector under the PPP model, the wastewater treatment industry in Ningxia and Yinchuan is expected to benefit from further capital investment in future.

Major challenges for the wastewater treatment industry in the PRC, Ningxia and Yinchuan

In July 2015, the State Council published the Notice on Issuing the Scheme for Building the Ecological Environment Monitoring Network* (《關於印發生態環境監測網路建設方案的通知》) (the "**Scheme**"). The aim of the Scheme is to set up a comprehensive and unified environment quality monitoring network, and to require local environmental departments to strictly monitor the pollutant discharge by related enterprises and plants. The daily wastewater discharge quality from wastewater treatment plants is one of the key areas to be monitored. Thus, in order to comply with related regulations under the close monitor of governmental authorities, to ensure the treated wastewater meets the prescribed discharge standards consistently and the steady operation of the wastewater treatment process without disruption are major challenges and objectives for wastewater treatment plants.

Major raw materials for the wastewater treatment industry

For wastewater treatment operations, key costs of operations include utilities, chemicals and labour costs. Utilities costs is a major part of the overall cost for wastewater treatment operations. In Ningxia, electricity prices for large industrial users had been adjusted downward three times during the period from 2013 to 2017, and this downward trend is expected to continue under the government's price control program.

Labour costs increased from RMB32,100 per person per year in 2013 to RMB38,900 per person per year in 2017, representing a CAGR of 4.9%. Labour costs are expected to maintain an upward trend in the near future due to continued economic development.

Flocculants, sodium hypochlorite, and sodium acetate are the major chemicals used in wastewater treatment processes. The price of flocculants has experienced a fluctuation in recent years according to market supply and demand conditions. The prices for sodium hypochlorite and sodium acetate have been relatively stable over the years, ranging from RMB815.0 per tonne to RMB960.0 per tonne, and RMB2,241.0 per tonne to RMB2,635.0 per tonne, respectively, during the period from 2013 to 2017. Raw material prices are expected to remain relatively stable in near future.

COMPETITIVE LANDSCAPE OF WASTEWATER TREATMENT INDUSTRY IN THE PRC, NINGXIA AND YINCHUAN

Overview of competitive landscape of wastewater treatment industry in the PRC

As of December 2017, there were 5,027 municipal wastewater treatment plants in the PRC, and the wastewater treatment capacity reached approximately 188.0 million cubic meters per day. The competitive landscape of the wastewater treatment industry in the PRC is highly fragmented, and is featured with significant regional competition characteristics. In 2017, the market share of TYW was approximately 0.2% in the overall PRC wastewater treatment industry in terms of designed treatment capacity, and approximately 0.3% in terms of actual treatment volume.

Overview of competitive landscape of wastewater treatment industry in Ningxia and Yinchuan

According to the Ningxia Hui Autonomous Region of Housing and Urban and Rural Construction Department* (寧夏回族自治區住房和城鄉建設廳), there were 36 wastewater treatment plants in Ningxia as of December 2017. Yinchuan (銀川市), Wuzhong (吳忠市), and Shizuishan (石嘴山市) are the three major cities of Ningxia, and they also contribute more than half of the total wastewater discharge volume in Ningxia.

As for Yinchuan, there were eight wastewater treatment plants, with seven of them in operation as of December 2017. The total designed treatment capacity has reached 575.0 thousand cubic metres per day, and the water discharge standard for all the eight plants is targeted to meet no lower than Class IA standard.

In Ningxia and Yinchuan, the operating companies of wastewater treatment plants usually enter into concession agreements with the local government. In the Concession Agreement entered with TYW, a pre-agreed tariff was determined, with a basic volume which is a contractually guaranteed minimum volume to be used as a parameter in the calculation of wastewater treatment service fees, and thereby TYW is safeguarded against fluctuations in the actual volumes of wastewater supplied to the Wastewater Treatment Plants. Furthermore, such kinds of concession agreements usually contain an exclusivity clause that the government cannot assign the concession right of the project company to other operators during the term of the concession, which is the case in our Concession Agreement. For this reason, instead of competing for the operation of existing wastewater treatment plants and treatment volume, the competition among industry players in Ningxia and Yinchuan is more focused on the bidding for new projects available in future.

Top five wastewater treatment companies ranked by designed treatment capacity and actual treatment volume in Ningxia

As at 31 December 2017, the total designed treatment capacity of the wastewater treatment plants in Ningxia operated by the top five wastewater treatment companies in Ningxia was approximately 895,000 cubic meters per day, representing around 89.5% of the total designed treatment capacity of all the wastewater treatment plants in Ningxia. In terms of actual treatment volume, the total treated volume of these top five entities amounted to approximately 246.4 million cubic meters in 2017, representing a market share of approximately 88.8% out of the total wastewater volume treated by all the wastewater treatment plants in Ningxia.

TYW ranked first in terms of both designed treatment capacity and actual treatment volume in Ningxia. As at 31 December 2017, the wastewater treatment plants operated by TYW had a total designed treatment capacity of 375,000 cubic meters per day, representing a market share of 37.5% in Ningxia. In terms of actual treatment volume, in 2017, the wastewater treatment plants operated by TYW treated a total wastewater volume of 120.4 million cubic meters, representing a market share of 43.4% in Ningxia.

The following companies are ranked based on the (i) total designed treatment capacity as at 31 December 2017; and (ii) the total actual wastewater treatment volume in 2017 of wastewater treatment plants in Ningxia.

Rank	Company name	# of plants	Total designed treatment capacity (thousand cubic meters per day)	Market share in terms of designed treatment capacity	Total actual treatment volume (million cubic meters)	Market share in terms of actual treatment volume	Geographical coverage in Ningxia
1	TYW	4	375.0	37.5%	120.4	43.4%	Yinchuan (銀川市)
2	Company A	4	175.0	17.5%	49.0	17.7%	Shizuishan (石嘴山市)
3	Company B	2	150.0	15.0%	37.7	13.6%	Yinchuan (銀川市); Binhe New District, Yinchuan (銀川市濱河新區)
4	Company C	6	120.0	12.0%	27.0	9.7%	Wuzhong (吳忠市); Shizuishan (石嘴山市)
5	Company D	2	75.0	7.5%	12.3	4.4%	Yinchuan (銀川市); Yongning County, Yinchuan (銀川市永寧縣)
	Top five total		**895.0**	**89.5%**	**246.4**	**88.8%**	
	Others		**105.0**	**10.5%**	**31.0**	**11.2%**	
	Total		**1,000.0**	**100.0%**	**277.4**	**100.0%**	

Note: The total treatment volume above only includes the wastewater treated by wastewater treatment plants.
Source: CIC

Ranking of the five wastewater treatment companies operating a total of eight wastewater treatment plants in Yinchuan by designed treatment capacity and actual treatment volume

As at 31 December 2017, there were eight wastewater treatment plants in Yinchuan operated by five wastewater treatment companies, including TYW, with seven in operation.

As at 31 December 2017, the total designed treatment capacity of all the eight wastewater treatment plants in Yinchuan was approximately 575,000 cubic meters per day, and the total designed treatment capacity of the four wastewater treatment plants operated by TYW amounted to 375,000 cubic meters per day, representing approximately 65.3% of the aforesaid total designed capacity.

In 2017, the total actual treatment volume in Yinchuan reached approximately 154.4 million cubic metres. As of December 2017, TYW ranked first in terms of total actual treatment volume, which constituted approximately 78.0% of the total actual wastewater treatment volume by all the eight wastewater treatment plants in Yinchuan.

The following companies are ranked based on the total actual wastewater treatment volume in 2017 of wastewater treatment plants in Yinchuan.

Rank	Company name	# of plants	Total designed treatment capacity (thousand cubic meters per day)	Market share in terms of designed treatment capacity	Total actual treatment volume (million cubic meters)	Market share in terms of actual treatment volume	Geographical coverage in Yinchuan
1	TYW	4	375.0	65.3%	120.4	78.0%	Xingqing District (興慶區) Xixia District (西夏區) Jinfeng District (金鳳區)
2	Company B	1	100.0	17.4%	23.7	15.3%	Xingqing District (興慶區)
3	Company E	1	25.0	4.3%	6.8	4.4%	Jinfeng District (金鳳區)
4	Company F	1	50.0	8.7%	3.5	2.3%	Jinfeng District (金鳳區)
4	Company G	1	25.0	4.3%	0.0	0.0%	Jinfeng District (金鳳區)
	Total	**8**	**575.0**	**100.0%**	**154.4**	**100.0%**	

Note: In 2017, Yinchuan Wastewater Treatment Plant 9 (銀川市第九污水處理廠) operated by Company G was not in operation.
Source: CIC

Entry barriers of the wastewater treatment industry in the PRC, Ningxia and Yinchuan

(i) **Strict regulations and certification requirements:** The wastewater treatment industry is considered to be part of the public utilities sector and operates in partnership with local governments, with the latter typically being responsible for offering concessions in order to operate wastewater treatment projects. Furthermore, wastewater treatment plants are closely supervised by local governmental authorities responsible for environmental protection and urban and rural development.

(ii) **High capital requirements:** The wastewater treatment industry is capital-intensive in nature and prevents potential entrants lacking the necessary financial backing to win project bids from local governments. In addition, wastewater treatment projects require a long-term commitment period (usually 25–30 years) and with growth potential being limited by treatment capacities and a continuously high operating cost.

(iii) **Good track record and credibility:** A good performance track record and credibility are important factors for wastewater treatment enterprises to be considered their eligibility to participate in tendering of potential projects. A good performance track record and credibility can only be established over a considerable period of time based on compliance record, expertise and experience, and most importantly the company's reputation.

(iv) **Abundant industry knowledge:** The wastewater treatment industry requires extensive industry knowledge and know-how in order to comply with increasingly stringent discharge standards as stipulated by the government. It normally takes a considerable amount of time to accumulate the relevant industry experience and know-how. Therefore, it is a challenge for a potential entrant to enter the industry without having accumulated such expertise.

(v) **Exclusivity in concession agreement:** Obtaining relevant approvals and authorisations, including the concession rights, from local government is a prerequisite for entering into the operation of wastewater treatment business in Ningxia. A concession agreement usually contains exclusivity clauses and a relatively long-concession term. Under a concession agreement, tariff and minimum basic volume are fixed and during the concession period the local government cannot assign the operation of the wastewater treatment plants to third parties unless under certain exceptional circumstances triggering the termination rights of the government.

Future opportunities of the wastewater treatment industry in Yinchuan and nearby regions

In future, the demand for wastewater treatment capacities in major cities of Ningxia including Yinchuan, Wuzhong (吳忠市), and Shizuishan (石嘴山市) will further increase. The wastewater discharge volume in these cities is expected to be boosted by the local economic growth as the developing macro economy and rising urbanisation rate are expected to increase the municipal water consumption. In particular, Shizuishan is considered as an area with high developing potential for wastewater operating companies. Shizuishan is a vital industrial city in the Northwestern China, with its fast developing coal and energy industry which has high demand for wastewater treatment facilities.

Also, more new opportunities are expected to be available in Wuzhong and Shizuishan. In these two cities, certain number of wastewater treatment plants are still operated by the government, and with the wide implementation of PPP model as well as substantial financial burden of the local governments, these cities will likely to seek private funding for taking over their wastewater treatment plants in the near future.

Besides Ningxia, Shanxi (山西省) which is in relatively close proximity to Ningxia and Yinhuan is another province that is expected to offer opportunities for wastewater treatment operating companies. Shanxi is also located along the Yellow River, while only approximately 53.0% of its surface water reached Class I to III under the Surface Water Standards in 2017, thus wastewater treatment will be of paramount importance in the following years.

As of 2017, the population of Shanxi reached 37.0 million, while its urbanisation rate was only 57.3%, which was lower as compared to the country's average. The large population and continuing urbanisation process of Shanxi will increase the wastewater discharge volume in future. Also, the municipal wastewater treatment rate of Shanxi was approximately 90% in 2017, which was below the country's average. In order to achieve the province's target of 95% wastewater treatment rate by 2020 set by its local government, additional treatment capacity is expected to be needed which creates opportunities for operating companies to tap into this province. Moreover, approximately 40% of wastewater treatment plants in Shanxi were still operated by the government as at the end of 2017, and more operators with private funding are expected to explore opportunities in Shanxi under the PPP model.

Moreover, the wastewater treatment industry is expected to have more opportunities while penetrating rural areas. In April 2015, the State Council promulgated the Action Plan for Water Pollution Prevention and Control* (《水污染防治行動計劃》). This plan states that the environmental treatment work in rural areas needs to be expedited, and it also encourages the municipal wastewater treatment facilities and services to extend to rural areas.

OVERVIEW

Our business operations are subject to extensive supervision and regulation by the PRC government. This section sets out (i) an introduction to the major PRC government authorities with jurisdiction over our current operations; and (ii) a summary of the laws, regulations and policies to which we are subject.

FOREIGN INVESTMENT POLICY

According to the Catalogue of Industries for Guiding Foreign Investment (Revised 2017) (《外商投資產業指導目錄(2017年修訂)》) promulgated by the Ministry of Commerce and NDRC, construction and operation of wastewater treatment plants fall within the "encouraged" industry for foreign investment in the PRC. Foreign investors may participate in the construction and operation of wastewater treatment projects within the territory of the PRC by means of establishment of joint ventures or wholly-foreign owned enterprises.

CAPITAL FUND SYSTEM

In accordance with the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects* (《國務院關於固定資產投資項目試行資本金制度的通知》) which was promulgated and implemented by the State Council on 23 August 1996, the Opinion on Utilizing Foreign Funds in the Construction of Municipal Public Utilities (For Trial Implementations)* (《關於城市市政公用設施建設利用外資工作的意見(試行)》) promulgated and implemented by the Ministry of Construction of the PRC* (中華人民共和國建設部) (now known as MOHURD) on 20 May 1997, and the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects* (《國務院關於調整固定資產投資項目資本金比例的通知》) promulgated and implemented by the State Council* (中華人民共和國國務院) ("**State Council**") on 25 May 2009, the capital fund system is adopted in fixed asset investment projects.

Under the capital fund system, investors must contribute a certain proportion of capital as the project company's capital funds. The proportion of such contribution in wastewater treatment projects must be no less than 20% of the total project investment amount and the specific proportion will be determined by the approval authority of that project when reviewing the feasibility study report, taking into consideration the projects' future economic benefits, banks' willingness to issue loans and appraisal opinions.

PROVISIONS ON URBAN DRAINAGE AND WASTEWATER TREATMENT

According to the Provisions on Urban Drainage and Wastewater Treatment* (《城鎮排水與污水處理條例》) which was promulgated by the State Council on 2 October 2013 and became effective from 1 January 2014, the competent department of housing and urban-rural development of the State Council is the supervisory authority of the work of urban drainage and wastewater treatment at the national level. Competent departments of urban drainage and wastewater treatment of local people's governments at or above the county level are the supervisory and administrative authority of urban drainage and wastewater treatment work within their respective administrative regions.

The state government of the PRC shall encourage the adoption of concession operation, government procurement of services and other various means to attract private capital to participate in the investment, construction and operation of urban drainage and wastewater treatment facilities. Upon completion of a construction project of urban drainage and wastewater treatment facilities, the project owner shall organize final inspection and acceptance in accordance with the law. The said projects shall be delivered for use only upon passing the final inspection and acceptance, and the project owner shall, within 15 days from the day when the said project passes the final inspection and acceptance, submit the report on final inspection and acceptance and relevant materials to the competent department of urban drainage concerned for record-filing. After urban drainage and sewage treatment facilities pass final inspection and acceptance upon completion, the competent department of urban drainage concerned shall determine qualified facilities maintenance and operation entities to be responsible for managing such facilities through bidding, entrustment and other ways. Competent departments of urban drainage shall enter into maintenance and operation contracts with entities responsible for the maintenance and operation of urban wastewater treatment facilities to specify the rights and obligations of both parties. Entities responsible for the maintenance and operation of urban wastewater treatment facilities shall ensure the quality of the water discharged meets national and local discharge standards, and may not discharge sewage incompliant with relevant standards.

Entities responsible for the maintenance and operation of urban sewage treatment facilities shall, in accordance with relevant state provisions of the PRC, test the quality of water inflow and outflow, submit to competent departments of urban drainage and competent departments of environmental protection information on the water quality and volume of sewage treatment as well as the volume of reduction of major pollutants, and submit production and operating costs and other information to the competent departments of urban drainage in accordance with relevant provisions and the contracts on maintenance and operation. Entities responsible for the maintenance and operation of urban sewage treatment facilities shall submit relevant cost information to competent price departments in accordance with relevant provisions of the state government of the PRC. Entities responsible for the maintenance and operation of urban sewage treatment facilities or entities responsible for sludge treatment and disposal shall treat and dispose of sludge in a safe manner, ensure that the sludge after treatment and disposal is in compliance with relevant national standards, track and record the sludge produced as well as the whereabouts, purposes and use volume of the sludge after treatment and disposal, and report the same to competent departments of urban drainage and competent departments of environmental protection.

Drainage entities and individuals shall pay wastewater treatment fees to the local government in accordance with relevant provisions of the state government of the PRC. Wastewater treatment fees shall be included in local fiscal budgets for management, be earmarked for the construction and operation of urban sewage treatment facilities and sludge treatment and disposal, and shall not be diverted for any other purposes. The rates of wastewater treatment fees shall not be lower than the normal operating costs of urban wastewater treatment facilities. Local people's governments shall grant subsidies where the amount of wastewater treatment fees collected is insufficient to cover the normal operating costs of urban wastewater treatment facilities in circumstances as deemed necessary by the local people's government.

CONCESSION IN MUNICIPAL PUBLIC UTILITIES PROJECTS

According to the Circular of the Ministry of Construction on Issuing the Opinions on Accelerating the Marketization of Municipal Public Utilities Industry* (《建設部關於印發〈關於加快市政公用行業市場化進程的意見〉的通知》promulgated and implemented by the former Ministry of Construction (now known as MOHURD) on 27 December 2002, the concession system shall be established in the municipal public utilities industries, under which the governments grant enterprises the right to engage in certain products or services of municipal public utilities within a given time limit and scope and specify through contracts and agreements or otherwise the rights and obligations between the governments and the enterprises granted concession. The municipal public utility industries subject to concession include urban water, gas and heat supply, wastewater treatment, garbage disposal and public transport and other industries directly related to social public interests and involving allocation of limited public resources. For the municipal public utilities industries subject to concession, the governments shall select relevant investors or operators following the specified public bidding procedures.

According to the Measures for the Administration on the Concession of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》) promulgated by the former Ministry of Construction on 19 March 2004, implemented on 1 May 2004 and revised on 4 May 2015, for urban water, gas and heat supply, public transport, wastewater treatment, garbage disposal and other industries that are subject to concession according to law, the governments shall select investors or operators of municipal public utilities projects through market competition mechanism, clarifying that they may engage in certain products of municipal public utilities or provide certain services within a given time limit and scope. The competent departments of municipal public utilities of the people's governments of municipalities directly under the central governments, cities, and counties (hereinafter referred to as the Competent Departments) shall be responsible for the specific implementation of the concession of municipal public utilities within their own administrative regions with the authorization of the people's governments.

According to the Measures for the Administration on the Concession of Infrastructure and Public Utilities* (《基礎設施和公用事業特許經營管理辦法》) which was promulgated on 25 April 2015 and implemented on 1 June 2015, the competent departments of the relevant industry in people's governments at or above county level or the departments authorized by the governments may, in accordance with the needs of economic and social development, as well as the proposals for concession projects made by the relevant legal persons and other organizations, etc., put forward the implementation plans of concession projects. People's governments at or above county level may authorize relevant departments or entities as implementing organizations responsible for relevant implementation of concession projects and specify the specific scope of authorization. The development and reform department, finance department, land and resources department, environmental protection department, housing and urban-rural development department, transport department, water resources department, pricing department, energy department, financial supervision department shall be responsible for the implementation, supervision and administration of relevant concession projects in accordance with their assignment of responsibilities. The implementing organizations shall, in accordance with the approved implementation plans of concession projects, select the grantees of concession rights through bidding, competitive negotiation and other competitive modes and sign concession agreements with grantees of concession rights selected according to law. A concession agreement may, in accordance with the relevant laws, administrative regulations and national regulations, prescribe that the grantees of concession rights could gain earnings by charging users. When the charges are insufficient to cover the construction and operating costs of concession projects and an amount of reasonable earnings, the

governments may provide feasibility gap subsidies, including other relevant development and operation rights and interests granted by the governments for concession projects. Parties to concession agreements shall abide by the principle of good faith, and completely fulfill their obligations pursuant to the agreements. Unless otherwise stipulated in laws or administrative regulations, any party of implementation authorities or concessionaires who failed to fulfill the contractual obligations under the concession agreements or their fulfillment of obligations failed to meet the requirements as agreed, shall continue to fulfill their obligations, take remedial measures or compensate for losses.

PROMOTION ON PPP (PUBLIC-PRIVATE PARTNERSHIP)

According to the Guiding Opinions of the State Council on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment* (《國務院關於創新重點領域投融資機制鼓勵社會投資的指導意見》) promulgated and implemented by the State Council on 16 November 2014, the PRC government encourages social capitals participation in the municipal infrastructure projects including urban water supply, wastewater treatment and garbage disposal by concession, investment subsidy, government's purchase of services and other methods and shall choose eligible operators in accordance with the law. The government may also employ the entrusted operation or transfer-operate-transfer (TOT) and other operation ways to transfer the built municipal infrastructure projects to social capitals for operation and management.

According to the Guiding Opinions of the National Development and Reform Commission on Launching the Cooperation between Governments and Social Capitals* (《國家發展改革委關於開展政府和社會資本合作的指導意見》) promulgated and implemented by NDRC on 2 December 2014, PPP mode is mainly applicable to the public services and infrastructural projects which are provided by the government and suitable for marketable operation, such as water supply, wastewater treatment and garbage disposal. Development and reform committees of all provinces and cities shall establish the PPP project library, and shall submit the project progress information to NDRC prior to the fifth day of each month from January 2015 onwards.

According to the Circular of the Ministry of Finance* (中華人民共和國財政部) on Issues Concerning the Promotion and Application of the Public-Private Partnership Model* (《財政部關於推廣運用政府和社會資本合作模式有關問題的通知》) promulgated and implemented by Ministry of Finance on 23 September 2014, the Circular of the Ministry of Finance on Issues Concerning the Implementation of the Demonstration Project Cooperated between Governments and Social Capitals* (《財政部關於政府和社會資本合作示範項目實施有關問題的通知》) promulgated and implemented by Ministry of Finance on 30 November 2014 and the Circular of the Ministry of Finance on Regulating the Management of Co-operative Contract between Governments and Social Capitals (《財政部關於規範政府和社會資本合作合同管理工作的通知》) promulgated and implemented by Ministry of Finance on 30 December 2014, government authorities set up series guidelines of the cooperation between governments and social capitals under PPP mode, including project management and co-operative contract management.

TERMS OF CONCESSION RIGHTS

According to the Measures for the Administration on the Concession of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》) promulgated by the former Ministry of Construction on 19 March 2004, implemented on 1 May 2004 and amended on 4 May 2015 and the Measures for the Administration on the Concession of Infrastructure and Public Utilities* (《基礎設施和公用事業特許經營管理辦法》) which was promulgated by NDRC, Ministry of Finance, MOHURD, the Ministry of Transport, the Ministry of Water Resources and the PBOC on 25 April 2015 and implemented on 1 June 2015, the term of concession for infrastructure and public utilities shall be determined in light of the industry characteristics, the public products provided or service needs, the project life cycle, the investment payback period, and other integrated factors and shall not exceed 30 years at a maximum. For a concession project of infrastructure and public utilities with large investment scale and long payback period, the government or its authorized department may, in light of the reality of the project, agree on a term of concession exceeding the term as prescribed in the preceding paragraph, with the concessionaire. Upon expiry or early termination of concession agreement, where the infrastructure and public utility shall continue to be operated under concession, implementing institutions shall conduct new selection on concessionaire. Where new selection is conducted upon expiry, the original concessionaire shall be prioritised for such concession under equal conditions.

GOVERNMENT SUPERVISION ON CONCESSIONAIRE

According to the Administrative Measures for the Franchising of Infrastructure and Public Utilities* (《基礎設施和公用事業特許經管管理辦法》) and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities* (《建設部關於加強市政公用事業監管的意見》), the government's supervision on the concessionaires regarding wastewater treatment projects mainly includes the following:

Routine supervision

The government authorities in charge of supervising the municipal public utilities shall carry out supervision on the quality of the products and services provided by concessionaires regularly and shall supervise the cost of the products and services provided by the concessionaires. Audit departments at or above county level shall audit the operation of concession projects according to law.

Periodic supervision

The implementation administration shall, based on the concession agreement, conduct regular monitoring and analysis for the construction and operation of a concession project, carry out performance evaluation in concert with the relevant authorities, and establish the mechanism of adjusting prices or fiscal subsidies as per the concession agreement to ensure the quality and efficiency of public products or services.

Consequences of violation

Where a concessionaire violates laws, administrative regulations or national compulsory standards, materially jeopardizing public interests, or causing serious quality, safety or environment accidents, the relevant authorities shall order it to rectify within a time limit, and impose administrative penalty. If the concessionaire refuses to rectify, the concession agreement may be terminated in serious circumstances, or the concessionaire may be prosecuted for criminal liability according to law for any crimes committed.

CONSTRUCTION PROJECT TENDER

According to the Construction Law of the PRC* (《中華人民共和國建築法》) which was modified on 22 April 2011 and implemented on 1 July 2011, and the Bidding Law of the PRC* (Revised in 2017) (《中華人民共和國招標投標法》 adopted by the NPC Standing Committee, certain large-scale infrastructure and public utilities projects relating to social and public welfare and safety within the PRC, including surveying and prospecting, design, engineering and supervision of such projects, as well as the procurement of major equipment and materials regarding engineering and construction, shall be subject to bidding. The bid winner may, according to the provisions of the contract or the consent of the owner, sub-contract parts of the work that are not vital or principal to the project. The Regulation on the Implementation of the Bidding Law of the PRC* (Revised in 2017) (《中華人民共和國招標投標法實施條例》) further provides the specific requirements for supervision and administration of bidding and tendering.

The Provisions on Standards for the Scope and Size of Construction Projects Requiring Bidding* (《工程建設項目招標範圍和規模標準規定》) issued and implemented by the State Development Planning Commission* (國家發展計劃委員會) (now known as NDRC) on 1 May 2000 and the Administrative Measures of Bidding for Construction Project of Buildings and Public Infrastructures* (《房屋建築和市政基礎設施工程施工招標投標管理辦法》) issued and implemented by the Ministry of Construction of the PRC on 1 June 2001 further provide the specific requirements for bidding.

The Provisions on Bidding of Exploration and Design Work for Construction Project* (《工程建設項目勘察設計招標投標辦法》), the Provisions on Bidding of Construction Projects* (《工程建設項目施工招標投標辦法》), the Regulation on the Implementation of the Bidding Law of the PRC* (Revised in 2017) (《中華人民共和國招標投標法實施條例》) and relevant specific provisions specify the requirement, and procedures for bidding.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) which was revised on 24 April 2014, pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities.

According to the Law of the PRC on Appraising of Environmental Impact* (《中華人民共和國環境影響評價法》) which was revised on 2 July 2016 and came into effect on 1 September 2016, the state government of the PRC shall classify and administer the environmental impact appraisals in accordance with the degree of environmental impact. If a construction project may result in a material impact on the

environment, an environmental impact report is required, which thoroughly appraises the potential environmental impact. If the construction project may result in a slight impact on the environment, an environmental impact report of analyzing or appraising the specific potential environmental impact is required, and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but an environmental impact registration form shall be filed.

According to the Administrative Regulations on Environmental Protection for Construction Projects (Revised in 2017)* (《建設項目環境保護管理條例》), where a builder violates the provisions of these regulations in the case where the complementary environmental protection facilities of a construction project are not constructed, or where the construction project is put into production when the environmental protection facilities have not undergone acceptance inspection or do not pass acceptance inspection, or where the builder commits fraud in the acceptance inspection for the environmental protection facilities, the environmental protection administrative authorities shall order the builder to make correction with a time limited and impose a fine ranging from RMB200,000 to RMB1 million; where the correction is not made within the stipulated period, a fine ranging from RMB1 million to RMB2 million shall be imposed; for the directly accountable person(s)-in-charge and other accountable personnel, a fine ranging from RMB50,000 to RMB200,000 shall be imposed; where the construction project causes significant environmental pollution or ecological damage, the production or use shall be suspended, or the project shall be closed down upon approval by the relevant people's government.

According to the Interim Measures for Environmental Protection and Acceptance of Construction Projects Completed* (《建設項目竣工環境保護驗收暫行辦法》) promulgated on 20 November 2017, after the completion of the construction project, the builder shall truthfully examine, monitor and record the construction and commissioning of the environmental protection facilities of the construction project, and prepare the acceptance monitoring (investigation) report.

Furthermore, pursuant to the laws and regulations stated above, an enterprise that discharges and disposes toxic and hazardous materials including wastewater, shall comply with the applicable national and local standards on such materials, as well as report to or register with the applicable environmental protection authority. Failure to comply may result in a warning, an order or a penalty against such enterprise. Before commencing a construction project, an environmental impact assessment report must be submitted by an enterprise to the relevant environmental protection authority for approval. Relevant projects may be put into trial production once they obtain the approval for trial production from relevant authorities. An acceptance inspection by the relevant environmental protection authority is required before a completed project is allowed to commence its commercial operations.

WATER QUALITY

The water quality of effluent flowing from municipal wastewater treatment plants should comply with the standards set out in the National Wastewater Discharge Standards promulgated on 24 December 2002 and amended in May 2006. According to the Law of the PRC on the Prevention and Control of Water Pollution (Revised on 27 June 2017 and became effective on 1 January 2018)* (《中華人民共和國水污染防治法》), the company operating centralized treatment facilities for municipal wastewater is responsible for the quality of the effluent from the wastewater treatment plant.

Pollutants Discharge Permit

According to the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) revised by the NPC Standing Committee* (全國人民代表大會常務委員會) on 24 April 2014 and implemented on 1 January 2015, Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》) revised on 27 June 2017 and implemented on 1 January 2018 and the Implementing Rules of the Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法實施細則》) promulgated and implemented by the State Council on 20 March 2000, an enterprise operating centralized treatment facilities of urban wastewater shall obtain a pollutant discharge permit. It is forbidden for enterprises and public institutions to discharge wastewater into the water body without a pollutant discharge permit or in violation of the provisions of the pollutant discharge permit.

According to the Regulations for Administration on Pollutants Discharge of Ningxia Hui Autonomous Region* (《寧夏回族自治區污染物排放管理條例》) revised and implemented on 29 May 2018, an applicant for pollutants discharge permit must satisfy the following requirements: (i) production capacity, processes, equipments and products shall be in compliance with the requirements of national and regional industrial policies; (ii) the applicant shall have its environmental impact assessment documentation examined and approved by the environment protection authority; (iii) the pollution prevention facilities are in line with the requirements under environmental impact assessment documents; (iv) the emission of pollutants are in line with the requirements of national and regional standards and the total controlling indicator of the main pollutants discharge; (v) setting a standardized sewage outfall in accordance with relevant rules; (vi) the monitoring equipment has been installed in accordance with relevant rules and connected to environmental protection authority; (vii) adopted precautionary plans in response to environmental emergencies; and (viii) other requirements as required by the laws and regulations.

According to the Circular on Print and Distribution of the Implementation Scheme for the License System of Pollutant Discharge Control* (《關於印發控制污染物排放許可制實施方案的通知》) issued by the General Office of the State Council on 10 November 2016, the license system of pollutant discharge control is specified as the fundamental environmental management system for legally standardizing pollutant discharge activities of enterprises and institutions, and environmental protection department shall implement the license system of pollutant discharge by issuing pollutant discharge permits to enterprises and institutions and carrying out supervision in accordance with the permits.

According to the Notice on Print and Distribution of the Interim Provisions on the Administration of Pollutant Discharge Permits* (《關於印發〈排污許可證管理暫行規定〉的通知》) issued by MEP on 23 December 2016, MEP shall implement the sewage licensing management on the discharge of industrial waste gas or toxic and harmful air pollutants stipulated by the state of enterprises, institutions and towns, as well as operating units that operates industrial sewage centralized treatment facilities. MEP shall formulate and publish a list of the classification and management of sewage permit according to the industry, and step by step to promote the management of sewage license in batches. The pollutant discharging unit shall, within the time limit specified in the directory, discharge sewage with certification, prohibiting discharge without certification or discharge not on the basis of the certification.

According to the Classification and Administration Lists of Pollutant Discharge Permits for Stationary Pollution Sources (Version 2017)* (《固定污染源排污許可分類管理名錄(2017年版)》) issued by MEP on 28 July 2017 (the "**List**"), the existing enterprises and public institutions and other producers and operators should apply for pollutant discharge permits within the execution period in accordance with the requirements under the List. Discharge permits for wastewater treatment and reclaimed water treatment (including centralized treatment plants for industrial wastewater, urban residential wastewater treatment plants with a daily treatment capacity of 100,000 tons or more and for urban residential wastewater treatment plants with a daily treatment capacity of less than 100,000 tons), environmental sanitary administration (including centralized treatment for residential waste in towns and villages), centralized treatment for residential wastewater and centralized treatment for industrial wastewater (centralized treatment for residential wastewater and centralized treatment for industrial wastewater with a daily industrial wastewater treatment of 20,000 tons or more) shall be applied for before 2019. In addition, in accordance with the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation)* (《排污許可管理辦法(試行)》) promulgated by MEP on 10 January 2018, a pollutant discharging entity that has already been established and discharged pollutants before the time limit as provided on the List shall apply for a pollutant discharge permit within the time limit.

LAND USE RIGHTS AND CONSTRUCTION LAND PLANNING PERMIT

According to the revised Land Administration Law of the PRC* (《中華人民共和國土地管理法》) which became effective on 28 August 2004, land owned by the state government of the PRC may be granted or held under license by construction entity or individuals according to law. The state government of the PRC at or above the county level shall register and put on record in respect of the usage of state-owned land used by construction entity or individuals, and issue certificates to certify the land use rights. If the land is occupied without approval or by deception, the land administrative departments of the state government of the PRC at or above the county level shall order the construction entity or individuals to return the land that is illegally occupied. Where the act involves turning agricultural land into land for construction uses without authorization, which is in violation of the general plan for utilisation of land, a demolition order may be imposed on the newly constructed buildings and other structures on the land illegally occupied requiring demolition within a prescribed time limit. In addition, the competent land administrative departments can issue an order to confiscate the newly constructed buildings and other structures and to impose a fine where the act has not violated the general plans for the utilisation of land. Persons directly responsible for the aforementioned misconduct are subject to administrative punishment and where the case constitutes a crime, criminal responsibility shall be affixed.

According to the Urban and Rural Planning Law* (《中華人民共和國城鄉規劃法》) revised on 24 April 2015 and implemented by the NPC Standing Committee, a construction land use planning permit is needed for the use of both allocated land and granted land.

Construction Land Use Planning Permit: For a construction project using allocated land, once the project has been authorized, approved, or recorded by relevant administrative departments, the construction entity of such project shall apply to the urban and rural planning administrative department at the municipal or county level for construction planning permission. The above-mentioned administrative department will further determine the location, size and scope allowed for construction based on regulatory detailed planning and will issue a construction land use planning permit.

Before the granting of a state-owned land use right, the urban and rural planning administrative department at the municipal or county level will specify certain planning conditions, such as the location and nature of the land based on the regulatory detailed planning. Such planning conditions will be incorporated in the state-owned land use right grant contract. After entering into such state-owned land using right grant contract, the construction entity using such granted land shall apply to the urban and rural planning administrative department at the municipal or county level for a construction land use planning permit.

If a construction entity who was authorized to use the construction land fails to obtain a construction land use planning permit, the state government of the PRC at or above the county level shall withdraw the authorization to use the state-owned land. If the land has already been occupied it shall be returned promptly. Furthermore, the construction entity shall be obliged to compensate for any damage caused to any other relevant parties according to law.

Construction Work Planning Permit: According to the Urban and Rural Planning Law* (《中華人民共和國城鄉規劃法》), for construction work that was conducted in the city or town planning area, the construction entity shall apply to the competent administrative department of the state government of the PRC for a construction work planning permit. For construction work that proceeded without the construction work planning permit or in violation of the provisions of the construction work planning permit, the urban and rural planning administrative department at or above the county level can order the termination of such construction. If the impact on the planning caused by such construction can be eliminated, the department shall order such construction entity to make a correction within a prescribed time limit and pay a fine of not less than 5% of the construction cost but not more than 10% of such cost; if such impact cannot be eliminated, the department shall order the construction entity to demolish such buildings or structures, for construction work that cannot, be demolished, the department shall confiscate such buildings or structures or seize any illegal income and may also impose a fine not more than 10% of the construction cost.

Commencement of Construction Work Permit: According to the Construction Law of the PRC* (《中華人民共和國建築法》) modified on 22 April 2011 and the Administrative Regulation of Construction Work Quality* (《建設工程質量管理條例》) revised on 7 October 2017, a construction entity shall, prior to the start of construction of a construction project, apply to the competent department of the construction administration of the PRC government at or above the county level of the place where the project is to be located for a commencement of construction work permit pursuant to the relevant regulations. However, small projects, as determined by the competent department of construction administration of the State Council, are subject to exceptions. In addition, a construction project which has already obtained approvals for its construction commencement report pursuant to the terms of reference and procedures prescribed by the State Council is no longer required to obtain a commencement of construction work permit. If a construction entity carries out construction work without obtaining a commencement of construction work permit or in circumstances where its construction commencement report has not been approved, it shall be ordered to stop the construction work and to make corrections within a certain time limit. The construction entity shall also be fined.

Acceptance Checks: According to the Administrative Regulation of Construction Work Quality* (《建設工程質量管理條例》) and the revised Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures* (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) which entered into effect on 19 October 2009, a construction project shall not be delivered for use unless it has passed the acceptance checks. Where a construction entity illegally delivers the construction project for use without obtaining the acceptance checks or in circumstances where it failed to pass the acceptance checks, it shall be ordered to make corrections and pay a fine of not less than 2% but not more than 4% of the contractual project price, and shall be obliged to pay compensation if any losses have been caused. The construction entity should file a record at the competent construction administrative department at or above the county level at the place where the project is located within 15 days from the day when the construction project passes the acceptance checks. If the construction entity fails to file such a record within the time limit, it shall be ordered to make corrections within a prescribed time limit and shall be fined not less than RMB200,000 but not more than RMB500,000.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY TRADEMARK

Pursuant to the Trademark Law of the PRC* (《中華人民共和國商標法》), which was promulgated on 23 August 1982 and became effective on 1 March 1983, then amended on 30 August 2013 and became effective on 1 May 2014, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. In addition, using a trademark that is identical with or similar to a registered trademark connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages.

PATENT

Pursuant to the Patent Law of the PRC* (《中華人民共和國專利法》), which was revised on 27 December 2008 and with effect from 1 October 2009, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, make, use offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is decided, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

PRC LAWS RELATING TO LABOUR

Pursuant to the PRC Labour Law* (《中華人民共和國勞動法》) revised in 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 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 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 contributions shall be solely borne by employers.

Pursuant to the Regulations on the Administration of Housing Fund* (《住房公積金管理條例》) which was promulgated on 3 April 1999 and amended on 24 March 2002, PRC companies must register with the applicable housing fund management center and open 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.

TAXATION

Value-added Tax

The Temporary Regulations on Value-added Tax* (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on 13 December 1993, implemented on 1 January 1994, and amended on 10 November 2008, implemented on 1 January 2009 and amended on 6 February 2016, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax* (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated and implemented by Ministry of Finance on 25 December 1993, and was amended on 15 December 2008, 28 October 2011 and 19 November 2017, set out that all taxpayers selling goods or providing processing, repairing or maintenance services in China, or importing goods to the PRC shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or maintenance services.

According to Caishui [2018] No. 32, jointly issued by the MOF and SAT, all industries that are subject to 17% and 11% VAT rate (including goods, labour services, services, intangible assets, and fixed assets, etc.) will be adjusted to 16% and 10% respectively with effect from 1 May 2018.

Enterprise Income Tax

According to the EIT Law and the Implementation Rules on the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008, enterprise Income tax rates applicable to both domestic and foreign-invested enterprises were unified at 25% effective from 1 January 2008.

Under the EIT Law and the implementation rules issued by the State Council of the PRC, withholding income tax at the rate of 10% is applicable to dividends payable by a PRC tax resident enterprise to investors (excluding individual natural persons) that are "non-resident enterprises" (who 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 the establishment or place of business) to the extent that such dividends have their sources within the PRC, unless it is entitled to a reduction of such withholding tax under applicable tax treaties. Similarly, any gain realized on the transfer of shares of a PRC tax resident enterprise by such investors is also subject to 10% (or a lower treaty rate) income tax if such gain is regarded as income derived from sources within the PRC.

Furthermore, the income derived from environmental protection projects or energy and water saving projects which meet relevant requirements shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations and thereafter be entitled to a 50% reduction from enterprise income tax for the next three years. The Ministry of Finance, SAT and NDRC jointly promulgate the Catalogue of Enterprise Income Tax Preference in Environmental Protection and Energy and Water Saving Projects (Trial)* (《環境保護、節能節水項目企業所得稅優惠目錄(試行)》) on 31 December 2009 to specify the conditions and scope of such projects.

Urban Maintenance and Construction Tax as well as Education Surtax

According to Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign-invested Enterprises and Individuals* (《國務院團於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) which was promulgated on 18 October 2010, and with effect from 1 December 2010, the Tentative Regulations of the PRC on Urban Maintenance and Construction Tax* (《中華人民共和國城市維護建設稅暫行條例》) promulgated in 1985 and last amended on 8 January 2011, as well as the Tentative Provisions on the Collection of Educational Surtax (《徵收教育費附加的暫行規定》) promulgated on 28 April 1986 and last amended on 8 January 2011 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to Tentative Regulations of the PRC on Urban Maintenance and Construction Tax and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax* (《國家稅務總局關於城市維護建設稅徵收問題的通知》) which was promulgated on 12 March 1994 and with effect from the same date, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

In accordance with Tentative Regulation on the Collection of Educational Surtax* (《徵收教育費附加的暫行規定》) ("**Tentative Regulation**"), all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Tentative Regulation. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

Tax Benefits

According to the Circular on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources* (《關於印發〈資源綜合利用產品和勞務增值税優惠目錄〉的通知》) promulgated by Ministry of Finance and SAT on 12 June 2015 and implemented on 1 July 2015, taxpayers who are engaged in the sale of products made by themselves through comprehensive utilization of resources and the provision of services involving the comprehensive utilization of resources may enjoy the VAT policy of immediate refund upon payment. The refund proportion for sewage treatment service, garbage disposal, and sludge treatment and disposal service is 70%.

FOREIGN EXCHANGE REGISTRATION, FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC* (《中華人民共和國外匯管理條例》) which are last amended and promulgated on 5 August 2008 and with effect from the same date, the RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules of the PRC* (《中華人民共和國外匯管理條例》), foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (including board resolutions, tax certificates), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency to satisfy foreign exchange liabilities.

Dividend distribution

Before the promulgation of the EIT Law, the principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law of the PRC* (《中華人民共和國外資企業法》), the Income Tax Law of the PRC for Foreign-Invested Enterprises and Foreign Enterprises* (《中華人民共和國外商投資企業和外國企業所得税法》) and their respective implementation regulations.

Under these regulations, wholly foreign-owned enterprises in PRC may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this exemption provision has been revoked by the EIT Law which prescribes a standard withholding tax rate of 20% on dividends and other PRC-sourced passive income of non-resident enterprises. The EIT Law and its implementation rules reduced the rate from 20% to 10%, effective from 1 January 2008.

The PRC and the government of Hong Kong SAR signed the Arrangement between the Mainland of the PRC and Hong Kong SAR 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税避免雙重徵税和防止偷漏税的安排》) on 21 August 2006 (the "**Arrangement**"). According to the Arrangement, the

withholding tax rate of 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. The withholding tax rate of 10% applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.

Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements* (《國家税務總局關於執行税收協定股息條款有關問題的通知》), which was promulgated and with effect from 20 February 2009, all of the following conditions should be satisfied simultaneously where the tax payer needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident enterprise: (i) the tax resident of the other side who obtains dividends shall, in accordance with the provisions of the tax agreement, be limited to company; (ii) the proportions of the total amount of the owner's equities and the voting shares of the PRC resident enterprise directly owned by the tax resident of the other side complies with the prescribed proportions; and (iii) the proportion of equities owned by the tax resident of the other side shall, at any time within the successive 12 months before obtaining dividends, comply with the proportion specified in the tax agreement.

APPROVALS REQUIRED FOR REORGANISATION AND LISTING

Registration Process Under the Circular 37

According to Circular of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round-tripping by Domestic Residents through 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》) (the "**Circular 37**") promulgated on 4 July 2014 by the SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles for the purpose of investment and financing with the assets or equity interests of PRC domestic companies or the overseas assets or equity owned by them. Pursuant to Circular 37, the domestic resident natural persons include those individuals who hold PRC citizenship and those individuals who are not PRC nationals but reside habitually in the PRC for the purpose of economic interests.

Provisions on Merger and Acquisition of Domestic Enterprise by Foreign Investors in the PPC

Pursuant to the Provisions on 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》) promulgated by six PRC regulatory agencies in August 2006, and amended on 22 June 2009 by MOFCOM, where a company, enterprise, or natural person in the PRC acquires an affiliated company in the PRC in the name of its lawfully established or controlled overseas company, examination and approval procedures must be processed through MOFCOM. Further, overseas listing of a special purpose vehicle, which is directly or indirectly controlled by a domestic company or natural person for the purpose of overseas listing of the interests in a domestic company actually held by such domestic company or natural person, shall be subject to approval of China Securities Regulatory Commission.

BUSINESS DEVELOPMENT

Overview

TYW, established in the PRC in May 2011, our principal operating subsidiary, entered into the Original Concession Agreement with Yinchuan Construction Bureau in September 2011. Under the Original Concession Agreement, we are engaged in the operation and maintenance of the Wastewater Treatment Plants in Yinchuan, Ningxia, the PRC (namely, Yinchuan Wastewater Treatment Plant 1, Yinchuan Wastewater Treatment Plant 2, Yinchuan Wastewater Treatment Plant 3 and Yinchuan Wastewater Treatment Plant 4). As an ancillary business, we also supply recycled water treated by our treatment plants to end-users in Yinchuan which includes but not limited to a power plant and a public institution in Yinchuan in charge of public area landscaping. For details, please refer to the section headed "Business" in this document.

According to the CIC Report, we ranked first in Yinchuan and Ningxia in terms of (i) our total designed wastewater treatment capacity which accounted for approximately 65.3% and 37.5% of the total designed wastewater treatment capacity in Yinchuan and Ningxia, respectively, as of 31 December 2017; and (ii) total wastewater treatment volume which accounted for approximately 78.0% of the total wastewater treatment volume in Yinchuan and approximately 43.4% of the total wastewater treatment volume in Ningxia during the year ended 31 December 2017. As at the Latest Practicable Date, our aggregate daily wastewater treatment capacity had already been increased to 375,000 cubic metres per day, and Plant 2, Plant 3 and Plant 4 had already completed their upgrading of their discharge standard to Class IA. The upgrading of discharge standard to Class 1A for Plant 1 was in the testing and commissioning stage as at the Latest Practicable Date.

Prior to May 2016, TYW was indirectly owned by Taliworks Corporation Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad. In May 2016, LGB (HK) (which is wholly-owned by our Controlling Shareholders) acquired 100% of the issued share capital of TIL (which owns 100% equity interest of TYW). For details, please refer to "Corporate Development — Principal subsidiaries — TIL" below.

The following timeline sets out the important milestones of our business development and achievements:

Year	Major Events
2011	TYW entered into the Original Concession Agreement with Yinchuan Construction Bureau in September 2011, pursuant to which a concession right was granted by Yinchuan Construction Bureau to TYW in respect of the operation and management of the Wastewater Treatment Plants in Yinchuan. Pursuant to the TOT Transfer Agreement, the relevant facilities were taken over by TYW in December 2011
2012	Plant 4 was recognised as a National Advanced Group for Sewage Discharge Reduction* (全國減排先進集體)

Year	Major Events
2013	Plant 2 was recognised as an Advanced Entity for Sewage Discharge Reduction in Yinchuan* (銀川市污染減排工作先進單位) for the year of 2012 TYW was recognised as an Excellent Standard Achievement Entity* (先進達標單位) for the year of 2013 in the National Urban Wastewater Treatment Performance and Standard Achievement Contest* (全國城鎮污水處理廠績效達標競賽)
2014	TYW entered into the Framework Agreement with Yingchuan Construction Bureau in May 2014, which supplemented the Original Concession Agreement, pursuant to which we are required to upgrade the discharge standard for each of our Wastewater Treatment Plants to Class IA and expand the capacity for Plant 4 from 100,000 cubic metres per day to 180,000 cubic metres per day
2015	Plant 3 completed its upgrading of the discharge standard to Class IA and increased its designed capacity to 100,000 cubic metres per day
2016	LGB (HK) acquired 100% of the issued share capital of TIL
2017	Plant 2 completed its upgrading of the discharge standard to Class IA and its Phase I expansion to 75,000 cubic metres per day. Plant 4 completed its upgrading of the discharge standard to Class IA. The aggregate capacity of the Wastewater Treatment Plants has reached 375,000 cubic metres per day TYW was recognised as an Advanced Entity that completed upgrading works for wastewater treatment plants* (污水處理廠提標升級改造工作先進單位) for the year of 2017
2018	Based on the feasibility study report approved by the local governmental authorities of Yinchuan, the capacity for Plant 4 shall be further expanded to 200,000 cubic metres per day where the discharge standard for the additional capacity of 100,000 cubic metres shall be Quasi Surface Water Standard Class IV (準四類水標準)

CORPORATE DEVELOPMENT

Our Company

Our Company was incorporated in the Cayman Islands on 17 April 2018 as an exempted company under the Companies Law in anticipation of the [REDACTED]. As at the date of incorporation, our Company has an authorised share capital of HK$380,000 divided into 38,000,000 Shares with a par value of HK$0.01 each. On incorporation, one nil-paid Share was allotted and issued to the initial subscriber who is an Independent Third Party and was subsequently transferred to Sparkle Century, while Sparkle Century was wholly-owned by LGB (HK).

During the Track Record Period and as at the Latest Practicable Date, the equity interest of LGB (HK) was owned by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim as to 70%, 25% and 5%, respectively. During the Track Record Period and up to the Latest Practicable Date, LGB (Malaysia) was owned by Mr. CM Lim and Mr. CS Lim as to 30.4% and 30.4%, respectively, while the remaining 39.2% equity interest was held by their family members. For further details of LGB (Malaysia), please refer to "Relationship with Controlling Shareholders" in this document.

Upon completion of the Reorganisation, our Company became the holding company of our Group.

White Empire

White Empire was incorporated in BVI as a limited liability company on 12 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.0 each. On 9 May 2018, one ordinary share with a par value of US$1.0, representing the then entire issued share capital of White Empire, was issued and allotted to our Company at par and credited as fully paid. As at the Latest Practicable Date, White Empire was wholly-owned by our Company.

Principal subsidiaries

TIL

TIL was incorporated in Hong Kong with limited liability on 27 September 2002 by two Independent Third Parties (who were the initial subscribers of TIL). Following various allotments of shares and transfer of shares of TIL in January 2003, Taliworks Corporation Berhad (by itself and through its subsidiary) owned the entire issued share capital of 100 shares of TIL. During the Track Record Period and up to the Latest Practicable Date, the principal activity of TIL was investment holding (including TYW and other subsidiaries).

Taliworks Corporation Berhad is a public company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad (Malaysian Stock Code: 8524) with a market capitalisation of approximately RM1.0 billion (equivalent to approximately HK$2.0 billion) as at 30 April 2018. During the Track Record Period, Mr. CM Lim and Mr. CS Lim (through various companies direct and indirect intermediate holding companies) controlled collectively over 50.0% of the issued share capital of Taliworks Corporation Berhad in aggregate.

As disclosed in the announcement published by Taliworks Corporation Berhad dated 25 February 2016, notwithstanding that the management of Taliworks Corporation Berhad recognised that the long-term prospects of the disposed companies (including TIL and other companies as discussed below) remain viable, the disposed business was no longer consistent with the Taliworks Corporation Berhad's then new business strategy to focus on mature operational cash generating utilities/infrastructure businesses to support its dividend policy. At the same time, our Controlling Shareholders had a positive longer term view of the prospect of the wastewater treatment business in the PRC. On 25 February 2016, Taliworks Corporation Berhad (as seller) and LGB (HK) (as purchaser) entered into a share sale agreement (as supplemented) under which (i) the entire issued share capital of TIL, (ii) 80% of the entire issued share capital of TSL; and (iii) 100% equity interest in SWMT, were transferred by Taliworks Corporation Berhad to LGB (HK) for an aggregate cash consideration of US$54,600,000 (then

equivalent to approximately RM230 million). The transactions were approved by non-interested shareholders of Taliworks Corporation Berhad in an extraordinary general meeting. The transfer of 100 shares of TIL (being its entire issued share capital) was completed on 17 May 2016 and the consideration was fully settled by May 2016.

As disclosed in the announcement published by Taliworks Corporation Berhad dated 25 February 2016, the consideration was arrived at on a willing-buyer willing-seller basis, after taking into consideration: (i) the range of indicative value of between RMB350 million (then equivalent to approximately RM225.6 million) and RMB415 million (then equivalent to approximately RM267.5 million) attributed to Taliworks Corporation Berhad's entire investment in the disposed companies (including equity interests and outstanding shareholders loan and advances) as appraised by an independent valuer; and (ii) the rationale for the disposals in view of Taliworks Corporation Berhad's then new business strategies.

TIL remained as a direct wholly-owned subsidiary of LGB (HK) until immediately before the Reorganisation. Please refer to "Reorganisation" below for details of the Reorganisation and the shareholding structure of our Group.

TYW

TYW, our principal operating subsidiary, was established as a wholly-foreign owned enterprise under the PRC laws on 6 May 2011 with a registered capital of US$48,000,000 and directly wholly-owned by TIL. During the Track Record Period and up to the Latest Practicable Date, TYW was our principal operating subsidiary engaged in operation and maintenance of the Wastewater Treatment Plants in Yinchuan pursuant to the Concession Agreement.

On 18 June 2014, 5 August 2016 and 24 July 2017, TYW increased its registered share capital to US$56,070,000, US$64,820,000 and US$75,880,000, respectively. Since its establishment and up to the Latest Practicable Date, TYW was a wholly-owned subsidiary of TIL.

TEL

TEL was incorporated in Hong Kong with limited liability on 16 December 2008 with one share issued to TIL. During the Track Record Period and up to the Latest Practicable Date, TEL had no business operation. TEL has been a wholly-owned subsidiary of TIL since its incorporation.

TSH

TSH was established as a limited liability company under the PRC laws on 24 July 2005 with a registered capital of US$125,000, which was wholly-owned by TIL. It was engaged in trading in equipment for environment protection and water environment equipment and provision of related services at the time of establishment and ceased business operation since 2011. During the Track Record Period and up to the Latest Practicable Date, TSH had no business operation and was dormant.

TSET

TSET was established as a limited liability company under the PRC laws on 5 November 2008 with a registered capital of US$1,500,000, which was wholly-owned by TIL. As at the Latest Practicable Date, TSET provided administration function to our Group in the PRC.

TIBI

TIBI was incorporated in Hong Kong with limited liability on 4 June 2007. At the material time, TIBI had an issued share capital of 200,000 shares, owned as to 70% by TIL (140,000 shares) and 30% by an Independent Third Party (60,000 shares), respectively. TIBI was a project company which was intended to engage in research and development of enzyme, bacteria and related products required for wastewater and related sludge treatment in the PRC through TIBI and its subsidiaries. The project ceased as it was not profit making. The subsidiaries of TIBI were dissolved in 2011 and 2012. TIBI had no operation and business during the Track Record Period and was in the process of liquidation as at the Latest Practicable Date.

EXCLUDED BUSINESSES AND DISPOSED AND DISSOLVED ENTITIES

During the Track Record Period, LGB (HK) (through TIL or its other subsidiaries) was engaged in other businesses, including (i) other wastewater treatment business in the PRC engaged by PGW and NEW (whose business was halted); and (ii) provision of municipal solid waste transfer services in the PRC engaged by TSEL.

During the Track Record Period and up to the Latest Practicable Date, PGW and TSEL were retained as businesses owned by LGB (HK). They were not subsidiaries of TIL and were not included into our Group in the process of the Reorganisation. TSEL is principally engaged in household waste transfer business in Tianjin, the PRC. Pursuant to the relevant operation agreement with the local authorities, TSEL is responsible for operating and maintaining a municipal solid waste transfer station and transportation of the waste to the designated municipal landfills. There is a clear delineation between the business nature of our Group (i.e. wastewater treatment) and the business nature of TSEL, hence, it is not included in our Group.

On 11 April 2018, 70% equity interest held by TIL in TECO (which owned the 100% equity interest of NEW) was disposed to LGB (HK), after which it ceased to be a subsidiary of TIL and was not included into our Group. For further details regarding the disposal, please refer to "Reorganisation" below.

For further details regarding the excluded businesses of NEW and PGW and the reasons why they were not included in our Group, please refer to "Relationship with Controlling Shareholders — Excluded Businesses" in this document.

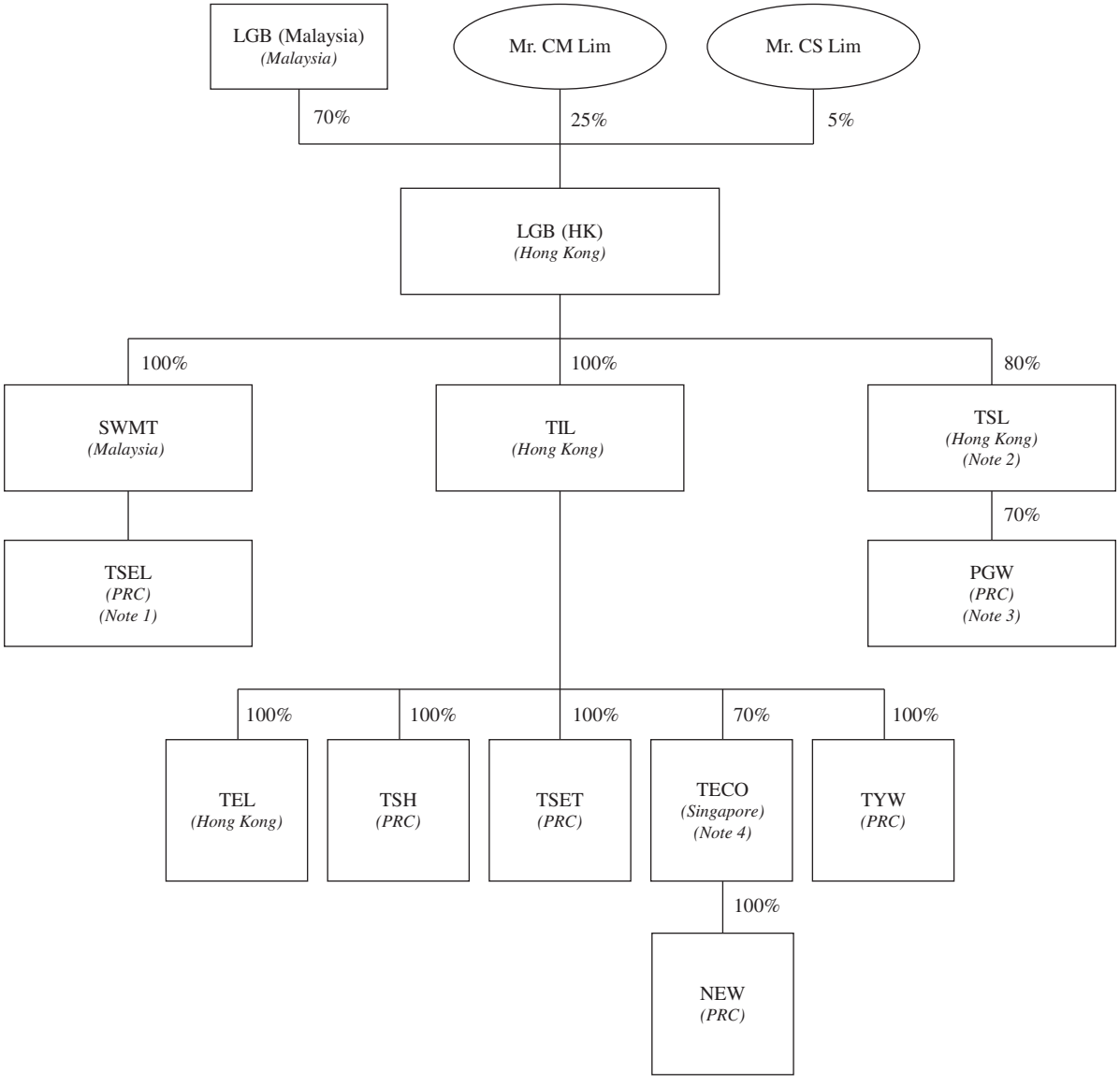
Tilgea Consortium

Tilgea Consortium was incorporated as a limited company in Malaysia on 4 June 2010, with an authorised share capital of RM1,000,000. At the time of incorporation, Tilgea Consortium had an issued share capital of RM10 divided into 10 ordinary shares of RM1.0 each, which was owned by TIL and an Independent Third Party as to 70% and 30%, respectively. The parties' intention of incorporation of Tilgea Consortium was to participate in tenders and engineering construction projects in Vietnam.

Tilgea Consortium became dormant in 2015, and applied for striking off in July 2017. The striking off and deregistration was completed on 21 February 2018.

REORGANISATION

Set out below is the shareholding structure of our Group immediately prior to the Reorganisation:



Notes:

1. TSEL is a sino-foreign cooperative joint venture in which SWMT has contributed 100% of its capital investment, and the joint venture partner is an Independent Third Party. According to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Venture Enterprises (《中華人民共和國中外合作經營企業法》), the Implementation Regulations for the Law of the People's Republic of China on Sino-foreign Cooperative Joint Venture Enterprises (《中華人民共和國中外合作經營企業法實施細則》) and TSEL's articles of association, TSEL's board of directors is the authority which is empowered to make decisions on its major issues. SWMT may appoint three directors while the joint venture partner may appoint one director. In addition, according to the articles of association of TSEL, the joint venture partner receives a fixed amount of distributable profits each year as prescribed in the articles of association, while SWMT receives the remaining distributable profits each year and assumes full responsibility for the risks and losses of TSEL. TSEL was principally engaged in household waste transfer business in Tianjin, the PRC. Pursuant to the relevant operation agreement with local authorities, TSEL is responsible for operating a municipal solid waste transfer station and transportation of the waste to designated municipal landfills.

2. TSL is owned as to 80% and 20% by LGB (HK) and Ambleton Limited (which is owned as to 50% and 50% by Mr. Wong Kok Sun (our executive Director and chief executive officer) and an Independent Third Party), respectively.

3. PGW is owned as to 70% and 30% by TSL and an Independent Third Party, respectively.

4. Prior to the disposal as disclosed in the sub-section headed "Excluded Businesses and Disposed and Dissolved Entities" above, TECO was owned as to 70% and 30% by TIL and an Independent Third Party, respectively.

5. In addition to the above, TIBI is owned as to 70% and 30% by TIL and an Independent Third Party, respectively, and is in the process of liquidation. Tilgea Consortium was owned as to 70% and 30% by TIL and an Independent Third Party, respectively, before completion of its striking off and deregistration in February 2018. Both of TIBI and Tilgea Consortium had no operation and business during the Track Record Period.

In anticipation of our [REDACTED], we underwent the Reorganisation pursuant to which our Company became the holding company and [REDACTED] of our Group.

Incorporation of our Company and BVI intermediate holding company

Sparkle Century was incorporated in BVI as a limited liability company on 6 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each and one share was issued and allotted, credited as fully paid, to LGB (HK).

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 April 2018. As at the date of incorporation, our Company has an authorised share capital of HK$380,000 divided into 38,000,000 Shares with a par value of HK$0.01 each. At the time of incorporation, one nil paid Share was issued and allotted to an initial subscriber and was subsequently transferred to Sparkle Century, while Sparkle Century was wholly-owned by LGB (HK).

White Empire was incorporated in BVI as a limited liability company on 12 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.0 each. On 9 May 2018, one ordinary share with a par value of US$1.0 of White Empire, representing the then entire issued share capital of White Empire, was issued and allotted to our Company at par and credited as fully paid.

Disposal of 70% equity interest in TECO

On 11 April 2018, TIL (as vendor) and LGB (HK) (as purchaser) entered into a sale and purchase agreement pursuant to which, TIL agreed to sell and LGB (HK) agreed to purchase 70% equity interest held by TIL in TECO. As consideration, LGB (HK) agreed to (i) pay TIL SG$1 as cash consideration (which was determined by the parties with reference to the net loss position of TECO); and (ii) assume absolutely and unconditionally all liabilities of TECO owed to TIL by entering into a deed of novation on the same day with TIL and TECO.

The above-mentioned transactions were properly and legally completed and settled on 11 April 2018, following which TECO (and NEW) ceased to be a subsidiary of TIL.

Acquisition of TIL

On 10 May 2018, (a) White Empire (as purchaser), (b) LGB (HK) (as vendor), (c) our Company, (d) Sparkle Century, and (e) TIL entered into a sale and purchase agreement, pursuant to which, LGB (HK) agreed to transfer the entire issued share capital of TIL to White Empire. In consideration for such transaction, as directed by LGB (HK) and procured by White Empire, (i) White Empire agreed to issue and allot one ordinary share, credited as fully paid, to our Company; (ii) our Company agreed to credit one nil-paid Share held by Sparkle Century as fully paid; (iii) our Company agreed to issue and allot 9,999 Shares, all credited as fully paid, to Sparkle Century; (iv) Sparkle Century agreed to issue and allot one ordinary share, credited as fully paid, to LGB (HK); and (v) our Company agreed to assume the debt owed by TIL to LGB (HK) prior to the transaction.

On the same day, TIL, our Company and LGB (HK) entered into a deed of novation for assumption of the aforesaid debt of TIL, following which the aforesaid debt became due from our Company to LGB (HK).

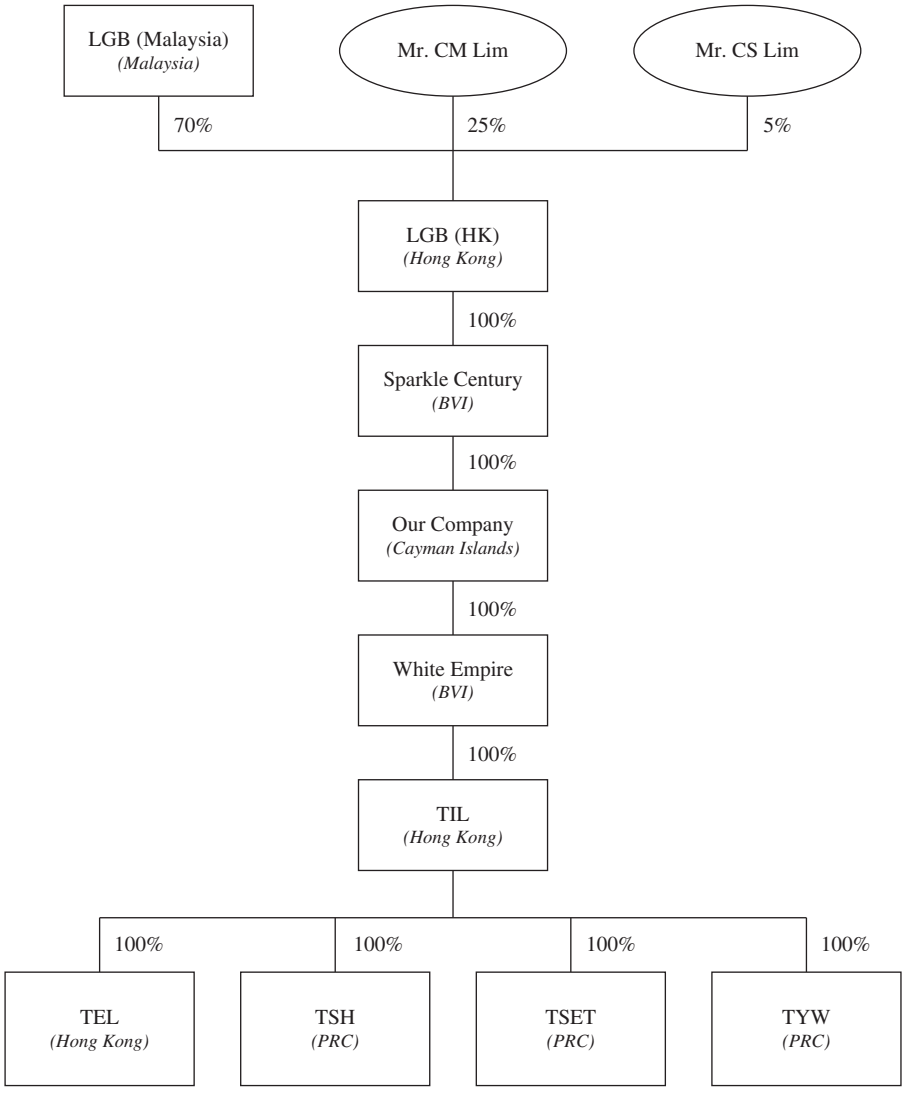
The above-mentioned transactions were properly and legally completed and settled on 10 May 2018, following which TIL became wholly-owned by White Empire.

Capitalisation of shareholders' loan

On 28 September 2018, LGB (HK), Sparkle Century and our Company entered into a deed of assignment pursuant to which LGB (HK) assigned the loan due from our Company to LGB (HK) ("**LGB HK Shareholder Loan**") to Sparkle Century, in consideration of Sparkle Century undertaking to repay a sum with the same amount and under the same terms as the above LGB HK Shareholder Loan to LGB (HK). After execution of the above loan assignment, our Company was indebted to Sparkle Century for the sum of approximately HK$591.0 million, while Sparkle Century was indebted to LGB (HK) for the sum of approximately HK$591.0 million.

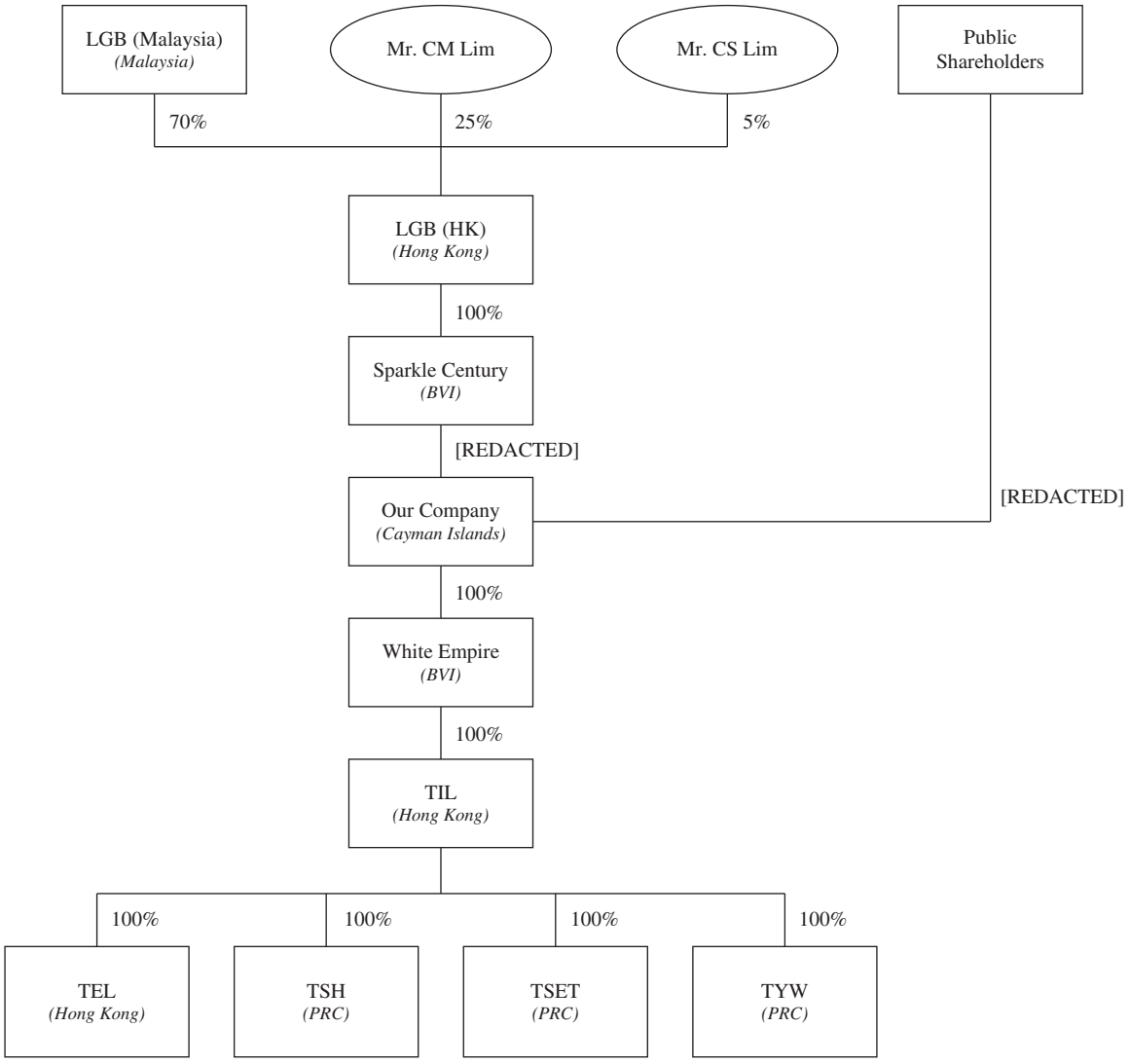
On the same day, Sparkle Century capitalised the above shareholder's loan owed by our Company to it, in consideration of our Company issuing and allotment 90,000 new Shares to Sparkle Century. After the above capitalisation, our Company remained to be wholly-owned by Sparkle Century.

Set out below is the shareholding structure of our Group immediately following completion of the Reorganisation but before the completion of the [REDACTED] and [REDACTED]:



Note: In addition to the above, as at the Latest Practicable Date, TIBI is a direct non-wholly-owned subsidiary of TIL and is in the process of liquidation. It had no operation and business during the Track Record Period.

Set out below is the shareholding structure of our Group immediately after the completion of the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme):



Note: In addition to the above, as at the Latest Practicable Date, TIBI is a direct non-wholly-owned subsidiary of TIL and is in the process of liquidation. It had no operation and business during the Track Record Period.

PRC REGULATORY ISSUES RELATING TO THE REORGANISATION AND THE [REDACTED]

Registration Process Under the Circular 37

According to Notice of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round-tripping by Chinese Residents through 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) (the "**Circular 37**") promulgated on 4 July 2014 by the SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of the SAFE before they establish or control any offshore special purpose vehicles for the purpose of investment and financing with the assets or equity interests of PRC domestic companies or the overseas assets or equity owned by them. Pursuant to the Circular 37, the domestic resident natural persons include those individuals who hold PRC citizenship and those individuals who are not PRC nationals but reside habitually in the PRC for the purpose of economic interests. Considering that none of the existing actual controlling shareholders are domestic resident natural persons as defined under the Circular 37. Our PRC Legal Adviser is of the opinion that our Controlling Shareholders are not subject to the registration process under the Circular 37.

Provisions on Merger and Acquisition of Domestic Enterprise by Foreign Investors in the PRC

Pursuant to the Provisions on 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) (the "**M&A Rules**") promulgated by six PRC regulatory agencies in August 2006, and amended on 22 June 2009 by MOFCOM, where a company, enterprise, or natural person in the PRC acquires an affiliated company in the PRC in the name of its lawfully established or controlled overseas company, examination and approval procedures must be processed through MOFCOM. Further, overseas [REDACTED] of a special purpose vehicle, which is directly or indirectly controlled by a domestic company or natural person for the purpose of overseas [REDACTED] of the interests in a domestic company actually held by such domestic company or natural person, shall be subject to approval of China Securities Regulatory Commission* (中國證券監督管理委員會). Considering the existing Shareholders are not PRC residents, our PRC Legal Adviser is of the opinion that the above approval procedures of M&A rules do not apply to the [REDACTED].

BUSINESS OVERVIEW

Our services

We are a wastewater treatment service provider operating and managing four wastewater treatment facilities located in Yinchuan, being the capital city of Ningxia, the PRC. According to the CIC Report, we are the leading and the largest wastewater treatment services provider in Yinchuan and Ningxia in terms of both (i) our total designed wastewater treatment capacity which accounted for approximately 65.3% and 37.5% of the total designed wastewater treatment capacity in Yinchuan and Ningxia, respectively, as of 31 December 2017; and (ii) our total wastewater treatment volume which accounted for approximately 78.0% and 43.4% of the total wastewater treatment volume in Yinchuan and Ningxia, respectively, during the year ended 31 December 2017.

Pursuant to the Concession Agreement, we were granted an exclusive right for 30 years since September 2011 to September 2041 to operate and manage the facilities of our four Wastewater Treatment Plants i.e., Yinchuan Wastewater Treatment Plant 1, Yinchuan Wastewater Treatment Plant 2, Yinchuan Wastewater Treatment Plant 3 and Yinchuan Wastewater Treatment Plant 4, to provide wastewater treatment services to the communities and industries located in Yinchuan. We receive wastewater treatment service fees from the local government of Yinchuan which is calculated in accordance with formulae stipulated in the Concession Agreement, which is based on tariff per cubic meter multiplied by a daily guaranteed basic volume of wastewater assigned to each of our plants and a rate of 60% of the tariff applicable multiplied by any additional volume in excess of the basic volume treated by our facilities.

We also undertake the upgrading and expansion of our wastewater treatment facilities to achieve higher wastewater discharge standards and to increase our designed treatment capacities. In return, we are entitled to an increment in the wastewater treatment service fees payable to us by upward revisions in the tariff and basic volume for the calculation of our wastewater treatment service fees upon (i) completion of such upgrading and expansion works; (ii) the auditing of the construction costs incurred by us; and (iii) the final approval by our customer, i.e., Yinchuan Construction Bureau. Such increment will give us a return on our construction costs that covers all our cost incurred at not less than the prevailing bank lending rate in accordance with the Concession Agreement.

Our TOT project model

We operate and manage our Wastewater Treatment Plants on a "Transfer — Operate — Transfer" (TOT) basis for a term of 30 years pursuant to the Concession Agreement entered into with the local government of Yinchuan in September 2011. Under a TOT project model, we took over the operations of our Wastewater Treatment Plants from the local government and operate and manage the facilities to provide wastewater treatment services during the concession period and we are required to return the operations and facilities to the local government upon the expiry of the concession period.

Geographical position and policy support

Ningxia is located on the upstream segment of the Yellow River, which is the third longest river in Asia, and is considered as one of the key water basins in the PRC. Severe pollution has made approximately one-third of the Yellow River unusable even for agricultural and industrial use. Therefore, the PRC government imposes strict protection plans and environmental governances to improve the water quality of waterways along the middle and upper segment of the Yellow River. Ningxia plays an important role in the water pollution control due to its geographical location on the upstream of Yellow River. The government of Ningxia has been making efforts on expanding and upgrading existing wastewater treatment plants, and also building new wastewater treatment plants in rural areas and economic development areas where a number of industrial plants are located.

According to the 13th Five-Year Plan of the local government of Ningxia, by 2020 its GDP is expected to reach RMB420.0 billion (equivalent to approximately HK$525.0 million), with its urbanisation rate expected to reach 60.0%. Between 2013 and 2017, the total water consumption volume for industrial and domestic uses in Ningxia increased from 665.0 million cubic metres to 736.0 million cubic metres, representing a CAGR of 2.6%. The total consumption volume is expected to further reach 883.3 million cubic metres by 2022 due to regional economic development and increasing urban population.

Yinchuan is the capital city of Ningxia. A high proportion of wastewater generated in Yinchuan has been discharged into the Yellow River. In 2015, a set of new plans was implemented by the local government of Yinchuan regarding water treatment, which included goals for resolving water pollution problems by 2020, and achieving 100% wastewater treatment rate by 2020. According to the CIC Report, the population and urbanisation rates of Yinchuan are expected to increase steadily during the years from 2018 to 2022, which is expected to boost the demand for wastewater treatment in Yinchuan in future. Between 2013 and 2017, the total municipal wastewater treatment volume of Yinchuan increased from 135.8 million cubic metres to 154.4 million cubic metres, representing a CAGR of 3.3%, while the municipal wastewater treatment rate in Yinchuan had increased from 93.0% to 96.0% during the same period. By 2022, the total municipal wastewater treatment volume of Yinchuan is expected to reach approximately 188.2 million cubic metres, with a CAGR of 4.0% between 2017 and 2022.

For the reasons set out above and in the paragraph headed "We are well-positioned to benefit from the PRC Government's increasing focus and policy support on environmental protection as well as population growth in urban areas" in the subsection headed "Competitive Strengths" in this section, we believe the demand for wastewater treatment services in Yinchuan and Ningxia will continue to grow. Since we took over the facilities in December 2011, we have had a continuous and steady operating record of our Wastewater Treatment Plants and we have met the requirements of our customer and other environmental and water-related local governmental authorities in Yinchuan. Hence, we believe we are well-positioned to benefit from the increase in demand for wastewater treatment services in Yinchuan and Ningxia and capture new opportunities as they arise in future.

Furthermore, as detailed in the paragraph headed "We receive our service fees based on a contractually guaranteed basic volume of wastewater and a fixed rate of tariff" in the subsection headed "Competitive Strengths" in this section, we believe that our financial position is well safeguarded against fluctuations in the actual volume of wastewater available to be treated by our facilities.

Upgrading of discharge standards and expansion of capacities

When we took over our Wastewater Treatment Plants in December 2011, the aggregate operational wastewater treatment capacity was 300,000 cubic metres per day and the discharge standard of all our four plants were Class II. According to the Original Concession Agreement, TYW was obliged to undertake upgrading works for our Wastewater Treatment Plants from Class II to Class IB, and expansion of capacity for each of Plant 2 and Plant 3 from 50,000 cubic metres per day to 100,000 cubic metres per day. In May 2014, TYW entered into the Framework Agreement with Yinchuan Construction Bureau, which supplemented the Original Concession Agreement, pursuant to which TYW is required to upgrade the discharge standard for each of our four Wastewater Treatment Plants to Class IA instead of Class IB and to expand of the capacity for Plant 4 from 100,000 cubic metres per day to 180,000 cubic metres per day on top of the expansion of Plant 2 and Plant 3. Subsequently, based on the feasibility study report approved by the local governmental authorities of Yinchuan, the capacity expansion target for Plant 4 has now been revised to 200,000 cubic metres per day where the discharge standard for the additional capacity of 100,000 cubic metres has been set to be Quasi Surface Water Standard Class IV (準四類水標準) which is a standard of water prescribed by the local governmental authorities of Yinchuan as being close to Surface Water Quality Standard Class IV (which is a water standard higher than Class IA in the National Wastewater Discharge Standards) where the treated water can be suitable for water replenishment at scenery locations, street flushing and landscaping purposes.

As at the Latest Practicable Date, our aggregate daily wastewater treatment capacity had already been increased to 375,000 cubic metres per day, and the discharge standard for our Plant 2, Plant 3 and Plant 4 had already been upgraded to Class IA. The upgrading and expansion works for Plant 3 were completed in July 2015. Phase I of Plant 2 expansion was completed in December 2017 thereby increasing its daily capacity to 75,000 cubic metres per day, and Phase II of Plant 2 expansion is expected to commence in the second half of 2018 and to be completed by the end of 2019. Plant 4 had completed its upgrading to Class IA in December 2017. The physical construction works for the expansion of capacity for Plant 4 is expected to commence in the second half of 2018 and we expect to complete by the end of 2020 the expansion works for the additional capacity of 100,000 cubic meters where the treated water discharge shall meet Quasi Surface Water Standard Class IV (準四類水標準). The upgrading of discharge standard to Class 1A for Plant 1 was in the testing and commissioning stage as at the Latest Practicable Date. Upon completion of all the contemplated upgrading and expansion works as mentioned above, our aggregate treatment capacity will reach 500,000 cubic metres per day.

As a result of the upgrading and expansion works already completed by us as at the Latest Practicable Date, we have been granted upward revision in our tariff applicable to Plant 3 and we have been granted an interim upward revision to our tariff applicable to Plant 1, Plant 2 and Plant 4.

For details of the contemplated upgrading and expansion works and the latest status as at the Latest Practicable Date, please refer to the summary table in "Our existing wastewater treatment facilities" in this section.

Recycled water business

During the Track Record Period, as an ancillary business, we had also derived not more than 3.0% of our total income from the supply of recycled water, which was the treated wastewater processed by our Plant 1 and Plant 3, to end-users in Yinchuan which included but not limited to a power plant and a public institution in Yinchuan in charge of public area landscaping.

Our sales and customers

For our wastewater treatment services, we derive our income from the wastewater treatment service fees payable by Yinchuan Treasury Bureau at the instruction of Yinchuan Construction Bureau, which is basically determined based on pre-agreed tariffs per cubic metre of wastewater treated by our facilities with a basic volume for calculation of our service fees. For further details of the calculation of our wastewater treatment service fees as prescribed under the Concession Agreement, please see "Major Processes in Our TOT Experience — Wastewater treatment service fees" in this section.

For the supply of recycled water, during the Track Record Period, our customers were end-users which apply the recycled water mainly for industrial use and landscaping purposes. Such customers include a power plant and a public institution in Yinchuan in charge of public area landscaping. For further details of our customers, please see the section headed "Our Customers" in this section.

COMPETITIVE STRENGTHS

We believe the following competitive strengths enable our Group to compete effectively in the wastewater treatment services market in Yinchuan, Ningxia, the PRC:

We possess extensive experience and proven track record of providing wastewater treatment services in Yinchuan and undertaking the upgrading and expansion works for our Wastewater Treatment Plants in Yinchuan.

According to the CIC Report, we ranked first in Yinchuan and Ningxia in terms of (i) our total designed wastewater treatment capacity which accounted for approximately 65.3% and 37.5% of the total designed wastewater treatment capacity in Yinchuan and Ningxia, respectively, as of 31 December 2017; and (ii) our total wastewater treatment volume which accounted for approximately 78.0% and 43.4% of the total wastewater treatment volume in Yinchuan and Ningxia, respectively, during the year ended 31 December 2017.

We have been operating and managing our Wastewater Treatment Plants in Yinchuan since we took over their operations in December 2011. Through all these years, we have gained substantial knowledge, techniques and knowhow to manage and operate our wastewater treatment services in Yinchuan. At the same time, we have been undertaking a substantial amount of upgrading and expansion works to improve the quality of treated wastewater processed by our facilities and expand the designed capacity of our facilities in Yinchuan to facilitate the increased in demand for our services in Yinchuan. As at the Latest Practicable Date, we have already completed part of such upgrading and expansion works required by the local government to its satisfaction and had been granted by our customer an upward revision in the tariff which can be charged by us for our wastewater treatment services. Through these upgrading and expansion works, we have gained substantial knowledge and experience in project management in relation to construction of buildings, equipment and facilities for our Wastewater Treatment Plants and have built up a stable network of suppliers of services for undertaking the upgrading and expansion works performed for our Wastewater Treatment Plants, which include but not limited, to construction companies as well as suppliers of materials and equipment.

TYW received a number of awards which include the recognition of Advanced Entity that Completed Upgrading Works for Wastewater Treatment Plants* (污水處理廠提標改造工作先進單位) granted by the Committee of Housing and Urban-Rural Development for Yinchuan of the Chinese Communist Party* (中共銀川市住房和城鄉建設系統委員會) and Yinchuan Construction Bureau for the year of 2017. During the Track Record Period and up to the Latest Practicable Date, there had not been any instances where any of our facilities had been imposed any penalty or fine, warning nor received any notice of non-compliance from any party including government authorities of a material nature due to our failure to meet the required standards of the local government authorities as well as under our Concession Agreement.

According to the relevant PRC laws, the PRC governmental authorities are required to select investors and operators of wastewater treatment projects through competitive tender processes. The selection usually based on certain tender criteria set by the authorities which usually includes experience in operating and managing wastewater treatment facilities, experience in upgrading and expanding the designed capacities of existing facilities and other technical requirements. We have such experience as evidenced by our successful upgrading of the wastewater treatment standard from Class II to Class IA for our Plant 2, Plant 3 and Plant 4 as at the Latest Practicable Date. We are required by Yinchuan Construction Bureau Quality to build an additional capacity of 100,000 cubic metres at our Plant 4 meeting Quasi Surface Water Standard Class IV (準四類水標準), being a water standard higher than Class IA in the National Wastewater Discharge Standards.

Based on a combination of the above, we believe that we have a well-developed scale and capabilities to continue to compete and maintain our market position in Yinchuan as well as to seize future opportunities to grow our business.

We are well-positioned to benefit from the PRC Government's increasing focus and policy support on environmental protection as well as population growth in urban areas

According to the Notice of Ministry of Finance and State Administration on Taxation on Value Added Tax Policy of Comprehensive Utilisation of Resources and Other Products* (《財政部、國家税務總局關於資源綜合利用及其他產品增值税政策的通知》) (the "**Notice**") promulgated by the Ministry of Finance and SAT on 9 December 2008, TYW was previously exempted from VAT on the condition that the treated wastewater satisfies the wastewater discharge standard set out in the National Wastewater Discharge Standards. Subsequently, according to the Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services involving Comprehensive Utilisation of Resources* (關於印發《資源綜合利用產品和勞務增值税優惠目錄》的通知) promulgated by the Ministry of Finance and SAT and effective from 1 July 2015, a taxpayer that provides labour services involving comprehensive utilisation of resources may enjoy the preferential tax treatment of VAT refund upon collection, and the VAT refund rate for wastewater treatment service is 70%. Pursuant to the Notice, TYW is eligible to enjoy the preferential VAT tax treatment provided that TYW must pay the VAT first and then 70% of the amount paid will be refunded to TYW from the taxation authority of Yinchuan. Further, according to the Concession Agreement, TYW is eligible to receive compensation from Yinchuan Construction Bureau, being our customer for our wastewater treatment services, for additional operation cost incurred as a result of the imposition of VAT tax on wastewater treatment services during the concession term, for example, the imposition of VAT, since 2015, we had been compensated for the remaining 30% VAT by Yinchuan Construction Bureau.

Ningxia is located on the upstream of the Yellow River. Accordingly, the wastewater discharged from Ningxia has a large impact on downstream cities. Severe pollution has made approximately one-third of the Yellow River unusable even for agricultural and industrial use. Therefore, the PRC government imposes strict protection plans and environmental governances on the Yellow River to improve the water quality of waterways along the middle and upper segment of the Yellow River. In order to better carry out the Yellow River management process, MEP has adopted strict water discharge standards for cities located along the Yellow River. The government of Ningxia has been making efforts on expanding and upgrading existing wastewater treatment plants, and also building new wastewater treatment plants in rural area and economic development area where a number of industrial plants are located in. As a major city that locates on the upstream segment of the Yellow River, the local government of Yinchuan implemented a new set of plans regarding water treatment in 2015 including goals for resolving water pollution problems in Yinchuan by 2020, and has set a target for wastewater treatment to reach a 100% wastewater treatment rate by 2020. The 13th Five-Year Wastewater Treatment and Recycling Facilities Construction Plan* (《「十三五」全國城鎮污水處理及再生利用設施建設規劃》) specifically set the targets regards wastewater treatment. Plans for Water Pollution Prevention and Control Projects in Key Drainage Basins (for the period from 2016 to 2020)* (《重點流域水污染防治規劃(2016–2020年)》) includes expanding the coverage of good quality surface water, reducing water pollution, and increasing the level of drinking water safety and protection to be achieved by 2020. The Yellow River is one of the key focus listed in the plans, and Yinchuan being the capital city of Ningxia which locates in the Yellow River drainage basin, the wastewater treatment industry development in Yinchuan is therefore expected to benefit from the PRC Government's increasing focus on environment protection as water quality standards for the wastewater treatment services industry become increasingly stringent.

According to the 13th Five-Year Plan of the local government of Ningxia, by 2020 its GDP is expected to reach RMB420.0 billion (equivalent to approximately HK$525.0 million), with its urbanisation rate expected to reach 60.0%. According to the CIC Report, it is also expected that the population and urbanisation rate of Yinchuan will both increase steadily from 2018 to 2022, boosting the demand for wastewater treatment in future. The total water consumption volume in Ningxia is expected to further reach 850.8 million cubic metres by 2022 due to regional economic development and increasing urban population, and for Yinchuan, CIC expects that by 2022, the total municipal wastewater treatment volume will reach 188.2 million cubic metres, with a CAGR of 4.0% between 2017 and 2022. With our proven track record and reputation, technical expertise and management experience, we believe that we are well positioned to benefit from the future industry growth in the wastewater treatment industry.

We receive our service fees based on a contractually guaranteed basic volume of wastewater and a fixed rate of tariff

Our wastewater treatment facilities are public infrastructure projects and we expect to receive wastewater treatment services fees over the concession period under our Concession Agreement. As provided in the Concession Agreement, our wastewater treatment service fees are calculated based on a pre-agreed base rate tariff and a contractually guaranteed basic volume of wastewater per day and if the actual volume of wastewater processed by us exceeds the basic volume, we will also be paid an extra service fee calculated based on 60% of the pre-agreed tariff to be applied to the extra volume above the basic volume.

In the event that the actual volume of wastewater supplied to our facilities falls below the basic volume, and provided that we are able to process 100% of the wastewater supplied, our service fees will still be calculated based on pre-agreed tariff and the basic volume, which safeguards us against fluctuation in amounts of wastewater available to be treated by us which may fall below the basic volume from time to time. In addition, the Concession Agreement provides that after completion of upgrading and expanding the treatment capacities of our facilities, we will be entitled to an upward adjustment in the basic volumes applicable to the relevant facilities. Please refer to the paragraph headed "Major Processes in Our TOT Experience — Wastewater treatment service fees" in this section for details.

Due to the above-mentioned reasons, we believe the contractually guaranteed basic volume gives us a guaranteed amount of income regardless of the actual volume of wastewater available to be treated by us and thereby protect our financial position from material fluctuations in the supply of wastewater supplied to our facilities.

We have an experienced management team with strong technical skills and an in-depth understanding and knowledge in managing our operations

We have an experienced and stable management team with substantial experience in the wastewater treatment industry. Our senior management team responsible for managing the operations of our Wastewater Treatment Plants is headed by Mr. Wong Kok Sun, being our executive Director and chief executive officer, and Mr. Han Ning, being our general manager. Mr. Wong Kok Sun has been managing wastewater treatment operations which includes the wastewater treatment business operations of our Group since 2012 whereby he has accumulated abundant experience in the wastewater treatment industry in the PRC and has led the management and operation of TYW since its early stage of development.

Mr. Han Ning joined our Group in 2013 and he has more than 19 years of experience in the wastewater treatment industry through his working in the wastewater treatment industry. After our acquisition of the concession right under the Concession Agreement in 2011, we have been able to retain most of the employees working at our four plants which include most core management team members and technicians.

We believe the extensive managerial experience and technical know-how of the wastewater treatment industry which our management team possesses and a stable management team and skilled work force which possess the understanding in the requirements of the local government authorities in Yinchuan are crucial to the continued operation of our four wastewater treatment facilities and the implementation of our upgrading and expansion of these existing facilities as well as our growth plans and business strategies in a cost-effective and efficient manner.

BUSINESS STRATEGIES

Upgrade and expand the capacities of our existing wastewater treatment facilities

Pursuant to the Concession Agreement and feasibility study reports approved by the local governmental authorities of Yinchuan, our Group is required (i) to upgrade all of our Wastewater Treatment Plants to reach Class IA Standard; (ii) to expand our total treatment capacity from the initial 300,000 cubic metres per day to 500,000 cubic metres per day including to build an additional capacity

of 100,000 cubic metres for Plant 4 where the discharge standard shall meet Quasi Surface Water Quality Standard Class IV (準四類水標準) which is a standard of water as prescribed by the local government of Yinchuan as being close to resembling Surface Water Quality Standard Class IV and can be suitable for water replenishment at scenery locations, street flushing and landscaping.

We will continue to upgrade and expand the capacities of our existing wastewater treatment facilities and thereby allowing us to improve our wastewater treatment standards and capabilities, increase our tariffs and basic volumes to receive higher service fees, improve our competitiveness in the region, thus enhancing our ability to pursue future projects when and as the opportunities arise.

As disclosed in "Business — Project Financing" in this document, the construction costs required for completing the contemplated upgrading and expansion works (inclusive of the estimated construction cost for the upgrading to Quasi Surface Water Standard Class IV (準四類水標準) for the additional capacity of 100,000 cubic meters to be built at Plant 4) as at 30 April 2018 was approximately RMB468.0 million (equivalent to approximately HK$585.0 million), which will be satisfied by a combination of bank borrowings, internally generated funds and a portion of the net proceeds from the [REDACTED]. For this purpose we have allocated approximately HK$[REDACTED] million or [REDACTED] of the net proceeds to partially fund the completing of the contemplated upgrading and expansion works.

Strengthen our market position in Yinchuan, Ningxia and other regions in the PRC through obtaining new wastewater treatment projects

In view of the increasing focus and favourable policies of the PRC Government in environmental protection and rising standards for wastewater treatment in the PRC, in particular, the respective local governments of Yinchuan and Ningxia as described above in "Competitive Strengths — We have an experienced management team with strong technical skills and an in-depth understanding and knowledge in managing our operations" above in this section, we intend to strengthen our market position in Yinchuan, Ningxia and other regions in the PRC through securing new wastewater treatment projects by leveraging on our proven track record and extensive experience in Yinchuan.

We aim at pursuing new projects in Yinchuan and Ningxia where we have already established foothold and by leveraging on our business scale as the largest wastewater treatment company in terms of our aggregated wastewater treatment capacity and treatment volume in Yinchuan and Ningxia. We intend to target at other regions in the PRC that we believe to have an increasing demand for wastewater treatment services and offer potential returns acceptable by us. One of the major factors we will take into account in evaluating and selecting new projects is the area in which the new projects are located and more focus will be given to projects located in Yinchuan and Ningxia, and in areas with geographical and demographical proximity to Yinchuan and Ningxia, since our current TOT project is located in Yinchuan where we have established a substantial market share and reputation and it would be easier for our senior management to oversee and gain physical access to the new project locations as well as our current TOT project. For details of our project selection criteria, please see "Major Processes in our TOT Experience — Project identification and evaluation" in this section.

As an initial step, our Group will carry out evaluation of the regions where the new projects are located and feasibility studies on the individual merits of the new projects when opportunities arise. For this purpose, our Company has allocated approximately [REDACTED] or HK$[REDACTED] out of the net proceeds from the [REDACTED] to fund the cost and expenses for new project evaluation.

Continue to enhance the quality control system by establishing a new wastewater inflow and outflow remote monitoring system

As at the Latest Practicable Date, our Wastewater Treatment Plants are equipped with a real-time monitoring system connected to the local regulatory authority to enable us and the local governmental authority to monitor the wastewater output volume and quality. Such system is maintained by independent third party authorised by the local government. On top of the aforesaid, we are planning to establish a new wastewater inflow and outflow remote monitoring system which will enable our management and technical team to (i) gain remote access to real-time data on the wastewater quality and the treatment processes starting from the inflow to the outflow; (ii) provide timely support to resolve any emergency situations; and (iii) oversee and manage our facilities without geographical restriction.

We have allocated approximately HK$[REDACTED] million or [REDACTED] of the net proceeds for this purpose.

For further details of the use of the net proceeds from the [REDACTED] for the purpose of implementing or to facilitate the implementation of our business strategies, please see "Future Plans and Use of Proceeds" in this document.

BUSINESS MODEL

Overview

We adopt the TOT project model to acquire and operate our wastewater treatment facilities and provide our wastewater treatment services.

According to the relevant PRC laws, for municipal public utilities projects, the PRC governmental authorities are required to select investors and operators of wastewater treatment projects through competitive tender processes, and enter into concession agreements to grant the concession rights to the investors and operators who have won the tender. Under the TOT project model, we acquired the concession right and took over the underlying assets of the operations of our wastewater treatment facilities in Yinchuan for a consideration of RMB810.0 million (equivalent to approximately HK$1,012.5 million) on "Transfer — Operate — Transfer" project model for a term of 30 years commencing from September 2011 and expiring in September 2041. All of our four existing wastewater treatment facilities were previously owned and managed by the local government before we took over the operations in December 2011.

According to the Concession Agreement, we are required to finance and carry out certain upgrading and expansion works to our Wastewater Treatment Plants. When we took over operations of the facilities, the aggregate capacity of the Wastewater Treatment Plants was 300,000 cubic metres per day and the wastewater discharge standard for all of the four plants was Class II. Upon completion of all of the contemplated upgrading and expansion works, the aggregate designed treatment capacity shall be 500,000 cubic metres per day and the water discharge standard for all of the four plants shall be upgraded to Class IA, save for the additional treatment capacity of 100,000 cubic metres to be built in Plant 4 shall meet Quasi Surface Water Quality Standard Class IV (準四類水標準). Upon completion of the relevant upgrading and/or expansion works, we are entitled to a return of our investment in the form of increment in the tariffs and upward revision in the basic volume for the calculation of our monthly wastewater treatment service fees subject to auditing by an Independent Third Party designated by the

local government on the total construction costs that we have incurred and the final approval by the local government. The proposed revisions in tariff and/or basic volume should give us a return on our construction costs that cover all our costs incurred at not less than the prevailing bank lending rate in accordance with the Concession Agreement.

Salient terms of the Concession Agreement

The salient terms and conditions of the Concession Agreement are as follows:

1. TYW is required to carry out upgrading and expansion of the capacity of our four existing wastewater treatment plants to 480,000 cubic metres per day with effluent discharge complying with Class IA standard *(Note)*;

2. TYW is responsible for the maintenance and upgrading the Wastewater Treatment Plants at its own cost and shall ensure the facilities are in good conditions;

3. TYW is entitled to charge wastewater treatment service fees to Yinchuan Construction Bureau, and enjoys a contractually guaranteed basic volume in the calculation of its monthly service fees;

4. TYW is entitled to enjoy the exclusive right to the concession during the concession period from 21 September 2011 to 20 September 2041;

5. TYW shall be responsible to finance the construction (in respect of the upgrade and expansion of the wastewater treatment facility), operation and maintenance of the Wastewater Treatment Plants, and ensure that the project is fully funded;

6. TYW is required to complete the upgrading and expansion works and implement the upgraded wastewater discharge and/or expanded capacity at the Wastewater Treatment Plants within the prescribed timelines as specified or approved by Yinchuan Construction Bureau. In case TYW fails to complete the upgrading and expansion works within the timeframe agreed by Yinchuan Construction Bureau attributable to TYW's fault, namely, where (i) the delays are not attributable to the requirements or change in requirements by Yinchuan Construction Bureau or any other government authorities; or (ii) any delays of the relevant government authorities in granting the subsequent relevant approvals for the commencement of construction works; or (iii) any force majeure events, TYW may face penalties and claims by Yinchuan Construction Bureau and/or the termination of TYW's services in whole or in part under the Concession Agreement; and

7. TYW is required to transfer the Wastewater Treatment Plants to Yinchuan Construction Bureau without compensation upon expiration of the concession period.

Note: According to the feasibility study report approved by local governmental authorities of Yinchuan, we are required to build an additional capacity of 100,000 cubic metres per day where the discharge standard shall meet Quasi Surface Water Quality Standard Class IV.

Revenue recognition

In accordance with IFRIC 12 Service Concession Arrangements, we recognise revenue (i) for the upgrading and expansion of our existing wastewater treatment facilities; (ii) for our wastewater treatment operation, whereby revenue is recognised for the provision of wastewater treatment operation services; and (iii) as finance income from service concession arrangement, despite that we generally only receive payments for our services rendered during the operational phase. For details on revenue recognition of our Group, please refer to the paragraphs headed "Financial information — Critical accounting policies, estimates and judgement — Service concession arrangement" in this document.

During the Track Record Period, our revenues was primarily derived from three major revenue components, namely: (i) wastewater treatment construction services, which amounted to approximately HK$91.2 million, HK$32.6 million, HK$197.2 million and HK$61.5 million, representing approximately 36.4%, 15.8%, 53.8% and 44.5% of our total revenue, respectively; (ii) wastewater treatment operation services, which amounted to approximately HK$73.2 million, HK$87.6 million, HK$76.6 million and HK$41.5 million, representing approximately 29.2%, 42.2%, 20.9% and 30.0% of our total revenue, respectively; and (iii) finance income from service concession arrangement, which amounted to approximately HK$78.7 million, HK$80.9 million, HK$86.0 million and HK$32.5 million, representing approximately 31.4%, 39.0%, 23.5% and 23.5% of our total revenue, respectively.

The following table sets forth a breakdown by revenue type in relation to revenue derived from wastewater treatment services during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
							(unaudited)			
Wastewater treatment construction services	91,243	36.4	32,647	15.8	197,249	53.8	8,428	13.2	61,546	44.5
Wastewater treatment operation services	73,194	29.2	87,571	42.2	76,590	20.9	26,294	41.2	41,470	30.0
Finance income from service concession arrangement	78,694	31.4	80,938	39.0	86,002	23.5	27,381	42.9	32,489	23.5
Recycle water supply operation services	6,299	2.5	5,189	2.5	5,428	1.5	1,354	2.1	2,118	1.5
Other revenue *(note)*	1,091	0.5	1,074	0.5	1,112	0.3	359	0.6	750	0.5
Total revenue	250,521	100.0	207,419	100.0	366,381	100.0	63,816	100.0	138,373	100.0

Note: Other revenue represented management fees from related companies during the Track Record Period.

For more details of the accounting method and principles regarding our TOT project model, please see "Financial Information — Critical accounting policies, estimates and judgment — Service concession arrangement" in this document.

MAJOR PROCESSES IN OUR TOT EXPERIENCE

Our TOT experience encompasses the following:

Project identification and evaluation

For the Wastewater Treatment Plants currently managed by us under the Concession Agreement, leveraging on its past experience, Taliworks Corporation Berhad participated in the public tendering for the concession right. Onsite inspection of the operations of the wastewater treatment facilities and feasibility studies were conducted. In that process, financing was also sourced after negotiations with several banks. A decision was then made to bid for the project after taking into account the technology and skills required for operating the facilities and delivering the services, the estimated costs and funding required, the estimated return based on the price proposed to be offered in the bid and the financial resources available.

In future, we expect new project opportunities will be awarded by way of open tenders and will be communicated to potential bidders through various channels such as public announcements on government websites. We may also learn of project opportunities through our own networks and connections in the wastewater treatment industry and the local communities. It is also possible that, in view of our proven track record in Yinchuan, our Group may be invited by the PRC government authorities to participate in the public tenders for new wastewater treatment projects that arise in future.

Once a new project opportunity is identified by us, we intend to carry out project evaluation which would involve engaging an Independent Third Party consultancy firm to perform feasibility studies on the new project. We expect the future feasibility studies on new wastewater treatment projects will cover the key aspects as set out below:

- overview of the project;
- geographic and demographic overview of the area where the project facilities are to be located;
- local population and urbanisation rate, urban development plan, level of economic development and the local wastewater treatment industry landscape;
- attention and policy supports of local government on wastewater treatment industry and relevant local laws and regulations governing the wastewater treatment industry;
- overview of existing plant and ancillary facilities or their preliminary designs and operational parameters;
- construction plan, such as plan for land use right procurement, construction phases and materials;
- funding plan including funding of acquisition costs and construction costs;
- energy conservation and environmental impact and protection measures studies;
- overall budget for acquisition or construction and future operations;

- estimated rate of return and investment payback period; and
- study of the bidding criteria and process.

Based on the results and information from the feasibility studies, we will select and decide whether to bid for new project by taking in account these major factors: (i) the expected rate of return of the project; (ii) the area in which such project is located, and if it is not located in Yinchuan or Ningxia, its geographical and demographical proximity to Yinchuan and Ningxia; (iii) the expected demand for wastewater treatment services in such area and potential future growth; (iv) the estimated investment costs, cost of operating and maintaining the wastewater treatment facilities of the new project; (v) the availability of internal resources and external financing to finance the project; (vi) requirements from customer on technology and skills required for operating the new project facilities and delivering the services; and (vii) our Group's knowledge and understanding of the local market.

During the above process, we will also source financing by negotiation with banks and other alternative fund raising exercise available after the [REDACTED].

Competitive tendering

The tender process that has been conducted through before the granting of the concession right to us was a public tendering process which were open to all qualified bidders. After decision was made to bid for the concession right, tender documents were prepared which included a detailed plan of managing the Wastewater Treatment Plants to meet the required standards, the composition, qualifications and experience of the management team to be established and evidence of financial resources available to fund the operation and future upgrading and expansion works. All the bids submitted were then evaluated by the local government of Yinchuan based on their own set of criteria such as price and track record of the bidders.

In tendering for future projects, our Directors believe that our capability and expertise to tender for and manage the projects, and where the new projects are located outside Yinchuan and Ningxia, to tap into other regions where such projects are located, are supported by the following:

(a) our track record in Yinchuan, our leading market position in Yinchuan and Ningxia in terms of wastewater treatment capacity and treatment volume, according to the CIC Report;

(b) our experience, knowledge and skills in operating our Wastewater Treatment Plants with a steady operating record and the fact that we had not been imposed any penalty or fine, warning nor received any notice of non-compliance of a material nature from any party including government authorities for failing to meet the required standards of the local government authorities as well as under our Concession Agreement during the Track Record Period and up to the Latest Practicable Date;

(c) our track record of successfully constructing the contemplated upgrading and expansion works for our Wastewater Treatment Plants according to the Concession Agreement and operating the upgraded and/or expanded facilities to the satisfaction of the local government of Yinchuan up to the Latest Practicable Date; and

(d) the various awards granted to us by local governmental authorities and committees in Yinchuan and Ningxia since our commencement of operation in 2011, including Committee of Housing and Urban-Rural Development for Yinchuan of the Chinese Communist Party* (中共銀川市住房和城鄉建設系統委員會) and Yinchuan Construction Bureau, as detailed in "Awards and Accreditations" in this section.

Furthermore, as detailed in "Major Processes in our TOT Experience — Project identification and evaluation" in this section, in future when we implement our business strategy to acquire new wastewater treatment projects, we will conduct our evaluation on the merits of the new project, including but not limited, to engage professional consultancy firms to conduct feasibility studies on the project covering a comprehensive range of key aspects necessary for us to properly and prudently assess whether such new project meets our own set of project selection criteria set out above before we decide whether to proceed with tendering for the same.

We will also leverage on our prior experience and relationship with our suppliers, subcontractors and construction design consultancy firms and prepare our bids for each new project target with such tender price and technical design that will, to our belief, ensure the necessary technical requirements can be met while achieving acceptable returns. We believe that our long-term working relationships with the local governments in Yinchuan where our wastewater treatment facilities are currently based will allow us to better identify their needs and meet their requirements in case we tender for future project opportunities that are located in Yinchuan. Also, with our leading market position in Yinchuan and Ningxia in terms of wastewater treatment capacity and treatment volume, we believe that we have competitive advantages when tendering for future projects that are located in Yinchuan and Ningxia. As for other regions which we may tap into in future, geographical and demographical proximity to Yinchuan and Ningxia is one of the major factors that we will take into account in our new project evaluation. According to Article 6 of the Bidding Law of the People's Republic of China* (《中華人民共和國招標投標法》), where a bidding is required by law for the project, the invitation to and submission of bids shall not be subject to geographical or departmental restrictions. No organisation or individual shall unlawfully restrict or exclude legal persons or other organisations outside a particular region or system from participating in the submission of bids, or unlawfully interfere in any manner with the bidding process. From our Group's experience, when Taliworks Corporation Berhad participated in the tendering process and was awarded our current TOT project, Taliworks Corporation Berhad had not have any prior participation in operating wastewater treatment facilities in Yinchuan and Ningxia and that relevant public tendering did not set any criteria or restriction requiring prior participation in Yinchuan or Ningxia, which is considered by our Directors to be an industry practice in the PRC based on their work experience and knowledge about the wastewater treatment industry in the PRC. For the above reasons, our Directors do not consider that our competitiveness to tap into cities/regions outside Yinchuan and Ningxia would be adversely affected by the fact that our Group does not have prior participation in those cities/regions.

Negotiating and signing concession agreement and acquiring the assets

Upon winning the bid in the competitive tendering process, negotiations were conducted with the relevant governmental authorities on the terms of a concession agreement and finally the Original Concession Agreement was executed to acquire the concession right to operate and manage the Wastewater Treatment Plants. The TOT Transfer Agreement was also executed with the previous owner of our Wastewater Treatment Plants which was a state-owned enterprise in the PRC controlled by the

local government of Yinchuan, whereby TYW acquired the underlying assets of the Wastewater Treatment Plants from the local government via the aforesaid previous owner which included the facilities and structures located within the plants, equipment and machinery and vehicles, for a total consideration of RMB810.0 million (equivalent to approximately HK$1,012.5 million) which had been fully settled. After the signing of the TOT Transfer Agreement, inspection and testing of the equipment and tools, monitoring system, electrical instruments and the operation system were carried out and we took over the operations of our Wastewater Treatment Plants on 29 December 2011.

In future, we expect that a similar project selection, tendering and negotiation approach will be required to be followed through in our selection and investment into potential wastewater treatment projects in Yinchuan, Ningxia and other parts of the PRC and we believe that we will now be better equipped by our track record and experience gained from our successful bid and our current operation in Yinchuan to secure additional wastewater treatment projects.

Concession rights and concession period

Under the Concession Agreement, we are entitled to enjoy a 30 years exclusive concession right which commencing from September 2011 to September 2041 and to charge wastewater treatment service fees to Yinchuan Construction Bureau during the concession period. Pursuant to the TOT Transfer Agreement, we paid an aggregate consideration of RMB810.0 million (equivalent to approximately HK$1,012.5 million) to acquire the concession right together with the underlying assets of the facilities mentioned above.

Water quality

The Concession Agreement sets out the parameters for the inflow of wastewater to be treated by our facilities and we are required to ensure the outflow of treated wastewater by our facilities can continue to meet the required discharge standard without disruptions. Each of our Wastewater Treatment Plants is installed with online monitoring sensors to monitor the levels of pollutants in the inflow of wastewater and outflow of treated wastewater. However, in the event that the outflow of the treated wastewater from our Wastewater Treatment Plants exceeds the discharge standard due to the inflow of wastewater exceeds the designed parameters of the Wastewater Treatment Plants, we will not be liable for breach of the Concession Agreement. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any incidents which resulted in our inability to meet the required standard of the outflow of wastewater of a material nature due to our own fault and we had not been subject to any administrative or contractual penalties or disputes with the local governmental authorities of a material nature.

Wastewater treatment service fees

Calculation of wastewater treatment services fees

Pursuant to the Concession Agreement, we receive wastewater treatment service fees in the form of tariff paid by the local government for the amount of wastewater treated by our Wastewater Treatment Plants. Our service fee is generally calculated according to the volume of wastewater treated by our facilities multiplied by a pre-agreed tariff set applicable to the individual plants, subject to revision agreed between both parties from time to time.

We also enjoy guaranteed daily basic volume of wastewater applicable to each of the Wastewater Treatment Plants in the calculation of our monthly service fees irrespective of fluctuations in actual volume of wastewater supplied to be treated by our facilities, provided that we are able to treat 100% of the incoming wastewater supplied to our facilities for the given day. When the actual inflow volume of treated wastewater falls below the guaranteed minimum outflow volume, we are entitled to charge our service fees based on the basic volume. When the actual outflow volume exceeds the basic volume, we are entitled to charge our service fees in respect of the additional volume based on 60% of the tariff rate*(Note)*.

The calculation of our monthly service fees as prescribed under the Concession Agreement is illustrated below.

Wastewater treatment service fee for a given month = (daily basic volume x tariff x number of days of operation in the month) + A

Where,

A = for the days of operation where the actual treated volume exceeds the daily basic volume, summation of actual volume above the daily basic volume x tariff x 60%*(Note)*

tariff = the tariff applicable to each of the Wastewater Treatment Plants

basic volume = the contractually guaranteed basic volume applicable to each of the Wastewater Treatment Plants

Note: For Plant 2 and Plant 4, our wastewater treatment service fees are calculated based on an interim tariff of RMB2.0 per cubic meter effective from December 2017 and January 2018, respectively, which is applicable to both the basic volume and any additional volume, until the approval by our customer of the respective tariff revision for Plant 2 and Plant 4 in relation to the completion of the relevant upgrading and expansion works.

Pursuant to the Concession Agreement, Yinchuan Construction Bureau shall conduct a verification of our monthly bills and payments made to us once every quarter and within 5 business days after the end of each quarter.

In the event that we fail to treat all the inflow of wastewater supplied to our facilities (below the basic volume) for a given day, except under circumstances of force majeure events or if our reduction in treated volume is due to excessive pollutant levels in the inflow of wastewater which is beyond our control, we will not be entitled to apply the daily basic volume in the calculation of our service fee for such day and our service fee will only be calculated based on the actual treated volume for that day, and we may also be subject to penalty under the Concession Agreement. During the Track Record Period and up to the Latest Practicable Date, we had not been imposed any such kind of penalty for failing to treat all of the inflow of wastewater.

Revision of our tariffs

The tariff that we charge for our wastewater treatment services is subject to adjustment every two years pursuant to the adjustment mechanisms stipulated in the Concession Agreement, which is mainly linked to changing market conditions affecting our operating costs including but not limited to utilities and costs of wages, chemicals, corporate income tax payable by TYW which are subject to auditing and

the approval of the local government. Under the Concession Agreement, every two years, our customer and TYW shall start to work together to determine such kind of adjustment and our Group shall submit our proposal and the relevant information and documents relating to the changes in our relevant operating costs to our customer who shall liaise with other relevant government authorities in charge of pricing supervision. Our customer shall complete its auditing and approval process by taking into account relevant cost indices in the relevant key cost report published by the local governmental authorities.

Pursuant to the Concession Agreement, we will also be entitled to upward revision in tariff rates and increase in the daily basic volume of wastewater for the calculation of our monthly service fees upon completion of expansion works of our Wastewater Treatment Plants, subject to auditing of the cost incurred by us and approval by the local government, which should give us a return on our investment that covers our costs incurred for the upgrading and expansion works completed at not less than the prevailing bank lending rate in accordance with the Concession Agreement. Prior to the commencement of the relevant upgrading and expansion works, we are required to engage design institute to conduct feasibility studies and prepare a feasibility study report setting out, among others, the construction works involved, estimated capital investment for the upgrading and/or expansion, evaluation of operating costs upon commencement of operation of the upgraded and/or expanded wastewater treatment facilities and the proposed increase in tariffs. After the completion of the relevant upgrading and/or expansion works, the aforesaid auditing of our investment cost incurred shall be conducted by an Independent Third Party designated by the local government based on a 6-month operating track record after the completion of the relevant works. Thereafter, we will negotiate an interim tariff with our customer before the final approval by our customer.

During the Track Record Period, (i) we had been granted an increase in tariff from RMB0.80 per cubic meter to RMB0.854 per cubic meter applicable to each of our Wastewater Treatment Plants and effective from 1 January 2016 which was related to the inflation in our operating cost; (ii) Plant 3 had been granted an increase in tariff to RMB2.42 per cubic meter effective from August 2015 in view of the completion of its upgrading and expansion in July 2015; (iii) in view of the substantial amounts of construction costs incurred and to be incurred by our Group for undertaking the upgrading and/or expansion works for Plant 1, Plant 2 and Plant 4 and the fact that the whole process of auditing our construction costs up to the approval of the revision in tariff would be lengthy, for the purpose of facilitating the progress of the upgrading and/or expansion works for our wastewater treatment facilities, we had been granted an interim tariff of RMB2.0 per cubic meter applicable to Plant 1, Plant 2 and Plant 4 and effective from July 2018, December 2017 and January 2018 respectively until the approval by our customer for the said revision after the auditing of our construction costs as mentioned above.

After the Track Record Period, Plant 3 had been granted an increase in tariff relating to inflation from RMB2.42 per cubic meter to RMB2.489 per cubic meter, respectively, with effect from 1 January 2018, while the said interim tariff for Plant 1, Plant 2 and Plant 4 continues to apply during the interim period until the completion of their respective contemplated upgrading and expansion works, the auditing of our construction costs and the approval by our customer of the revision in tariff in relation to upgrading and expansion.

For details of the upgrading and expansion works and the status of completion and revision of tariff as a result thereof, please see the summary table in "Our existing wastewater treatment facilities" in this section. Our investment amount expanded in the upgrading and expansion works are subject to the monitoring and supervision by the local governmental agencies which have been involved in the overall upgrading and expansion process including the technical design, price quotation, tendering of subcontracting works to subcontractors and the final inspection and acceptance of the completed works.

For charging of wastewater treatment service fees, we generally issue our bill to Yinchuan Construction Bureau after the end of each month. After our monthly bill is issued, the relevant authorities including Yinchuan Construction Bureau and Yinchuan Environmental Protection Bureau will conduct their own verification of the calculation of our billed service fee based on their record of our treated volumes during the month and our compliance record of discharge standards will also be verified by Yinchuan Environmental Protection Bureau. Pursuant to the Concession Agreement, the credit period of our monthly service fees is approximately 20 days after the issuance of our bill. However, historically and up to the Latest Practicable Date, the local government has the practice of paying us a lump sum amount on a quarterly basis to settle our monthly bills.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material disputes with the local governmental authorities in respect of the volume of wastewater treated by us and the calculation of wastewater treatment service fees charged by us. Please see "Risk Factors — Our Group is exposed to risk of payment delays by our customers" in this document for details of our risk of being exposed to delays in payments by the government authorities for our wastewater treatment services.

Operations, management and maintenance during the concession period

We generally operate, manage and maintain our wastewater treatment facilities in accordance with the requirements and standards set out in the Concession Agreement and local environmental laws and regulations and policies of the local governmental agencies overseeing environmental protection in Yinchuan, as well as our own quality control system and measures to ensure that the wastewater treated by our facilities meet the required standards.

For each of our Wastewater Treatment Plants, every two hours a team of at least two operating staffs will carry out routine inspection of our plants. This is to ensure stable operations and avoid any disruption to our operations. We have installed electronic tracking devices in various locations within the plant to ensure such regular inspections are carried out on schedule. Any unusual circumstances will be reported to the plant manager and/or our senior management for investigation and decision making together with follow up actions and report to environmental related government authorities.

From time to time our in-house technicians team will carry out regular maintenance on all the facilities and equipment. In the event that certain maintenance or repair works that our technician team needs external expertise supports, we will engage such external specialists to help in order to avoid any disruptions to our operations.

Our customer has the right to inspect our operations and the wastewater treatment facilities and equipment regularly. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material disputes with or complaints by our customer or local governmental authorities in relation to our operation and maintenance and quality control.

Transfer to governmental authorities upon expiry of concession period

Pursuant to the Concession Agreement, upon the expiration of the concession period, we are required to transfer the wastewater treatment facilities to the local governmental authorities for nil consideration. Furthermore, we are required to ensure the facilities and equipment are in working conditions at the time of transfer by undertaking checking, inspection and maintenance works at our cost. After the handover, we shall provide a warranty period of 12 months during which we are obliged to provide ongoing technical support to the transferee to ensure the transfer is smooth without disruption to the operation of the facilities.

Termination

The Concession Agreement may be terminated by either party upon the occurrence force majeure events or by the non-defaulting party in the event the other party commits material breach of its obligations under the Concession Agreement. During the Track Record Period and up to the Latest Practicable Date, we are not aware of the occurrence of any termination events and none of the facilities operated and managed by us under the Concession Agreement had been subject to termination nor had we received any notice from our customer for termination or threatening to terminate our services.

OUR EXISTING WASTEWATER TREATMENT FACILITIES

The table below sets out a summary of the details of our four existing wastewater treatment facilities.

Wastewater Treatment Plant	Type of wastewater treated by the facilities during the Track Record Period	Wastewater treatment standard as at the Latest Practicable Date	Construction costs incurred during the Track Record Period *(approximate)*	Tariff as at the Latest Practicable Date *(RMB/cubic metre)*	Designed capacity as at the Latest Practicable Date *(cubic metres/day)*	Daily basic volume as at the Latest Practicable Date *(cubic metres/day)*	Average utilisation rate during the three years 31 December 2017 *(Note 2)*	Average utilisation during the four months ended 30 April 2018 *(Note 2)*	Purpose of expansion and/or upgrading works	Latest status of upgrading and expansion works as at the Latest Practicable Date	Construction costs to be incurred to complete the remaining contemplated upgrading and expansion works as of 30 April 2018 *(approximate)*
Plant 1	municipal wastewater	Class II	RMB79.9 million	Interim tariff: RMB2.0 *(Note 1)*	100,000	93,333	93.6%	86.6%	To improve the discharge standard from Class II to Class IA	Discharge standard upgrade in testing and commissioning stage and to be completed by end of 2018 *(Note 3&4)*	RMB89.8 million
Plant 2	municipal wastewater	Class IA	RMB92.3 million	Interim tariff: RMB2.0 *(Note 1)*	75,000	46,667	Prior to Phase I expansion: 128.7% After completion of Phase I expansion: 96.8%	105.9%	To improve the discharge standard from Class II to Class IA and increase the capacity from 75,000 cubic metres per day to 100,000 cubic metres per day	Discharge standard upgrade completed in December 2017 Phase I expansion work increasing capacity to 75,000 cubic metres per day completed in December 2017 *(Note 3)* Phase II expansion to increase the capacity to 100,000 cubic metres per day expected to commence in the second half of 2018 and expected to be completed by the end of 2019. *(Note 3)*	RMB38.6 million

Wastewater Treatment Plant	Type of wastewater treated by the facilities during the Track Record Period	Water discharge standard as at the Latest Practicable Date	Construction costs incurred during the Track Record Period *(approximate)*	Tariff as at the Latest Practicable Date *(RMB/cubic metre)*	Designed capacity as at the Latest Practicable Date *(cubic metre/day)*	Daily basic volume as at the Latest Practicable Date *(cubic metres/day)*	Average utilisation rate during the three years ended 31 December 2017 *(Note 2)*	Average utilisation during the four months ended 30 April 2018 *(Note 2)*	Purpose of expansion and/or upgrading works	Latest status of upgrading and expansion works as at the Latest Practicable Date	Construction costs to be incurred to complete the remaining contemplated upgrading and expansion works as at 30 April 2018 *(approximate)*
Plant 3	municipal wastewater and industrial wastewater	Class IA	RMB63.8 million	Tariff: RMB2.489	100,000	75,000	Prior to expansion: 110.6% After completion of expansion: 67.1%	60.1%	To improve the discharge standard from Class II to Class IA and increase the capacity from 50,000 cubic metres per day to 100,000 cubic metres per day	Discharge standard upgrade to Class IA and expansion works all completed in July 2015	not applicable
Plant. 4	municipal wastewater	Class IA	RMB55.6 million	Interim tariff: RMB2.0 *(Note 1)*	100,000	93,333	107.8%	97.7%	To improve the discharge standard from Class II to Class IA; and building an additional capacity of 100,000 cubic metres per day which shall meet Quasi Surface Water Quality Standard Class IV (準四類水標準)	Discharge standard upgrade to Class IA completed in December 2017 Expansion works expected to commence in the second half of 2018 and expected to be completed by the end of 2020 *(Note 3)*	RMB339.6 million

Notes:

1. For Plant 2 and Plant 4, we have been granted an interim tariff of RMB2.0 per cubic meter effective from December 2017 and January 2018 respectively until the approval by our customer of the respective tariff revision for Plant 2 and Plant 4 in relation to the completion of their relevant upgrading and/or expansion works. For Plant 1, we have been granted an interim tariff of RMB2.0 per cubic meter effective from July 2018 after its upgrading to discharge standard Class 1A entered the testing and commissioning stage.

2. Utilisation rate of our wastewater treatment facilities was calculated by dividing the actual volume of wastewater treated by the total designed capacity taking into consideration the expansion in capacity completed from time to time.

   For Plant 2 and Plant 3, their respective average utilisation rates during the three years ended 31 December 2017 prior to the completion of Phase I of Plant 2 expansion and the expansion works for Plant 3, respectively, were higher than 100%, which was mainly due to the supply of wastewater to Plant 2 and Plant 3 at that time being higher than their respective original designed capacity before the relevant expansion works, while there is an extra buffer in the construction design of each of our facilities intended to be used as a backup capacity to reduce downtime and allowed us to cope with some unpredictable increase in the amount of wastewater supplied to our facilities from time to time beyond 100% of the designed capacity. Upon completion of the Phase I of Plant 2 expansion and the expansion works for Plant 3, their respective average utilisation rates had resumed to below 100%. Thereafter during the four months ended 30 April 2018, due to the higher supply of wastewater to Plant 2 which sometimes exceeded its designed capacity, the average utilisation rate for Plant 2 during such period had gone up to more than 100%. It is expected that the utilisation rate for Plant 2 will resume to below 100% after the completion of its Phase II expansion.

   The average utilisation rate for Plant 4 during the three years ended 31 December 2017 also exceeded 100% due to the same reason as stated above for Plant 2 and Plant 3, and it is expected that the utilisation rate for Plant 4 will decrease to below 100% upon the completion of its contemplated expansion works.

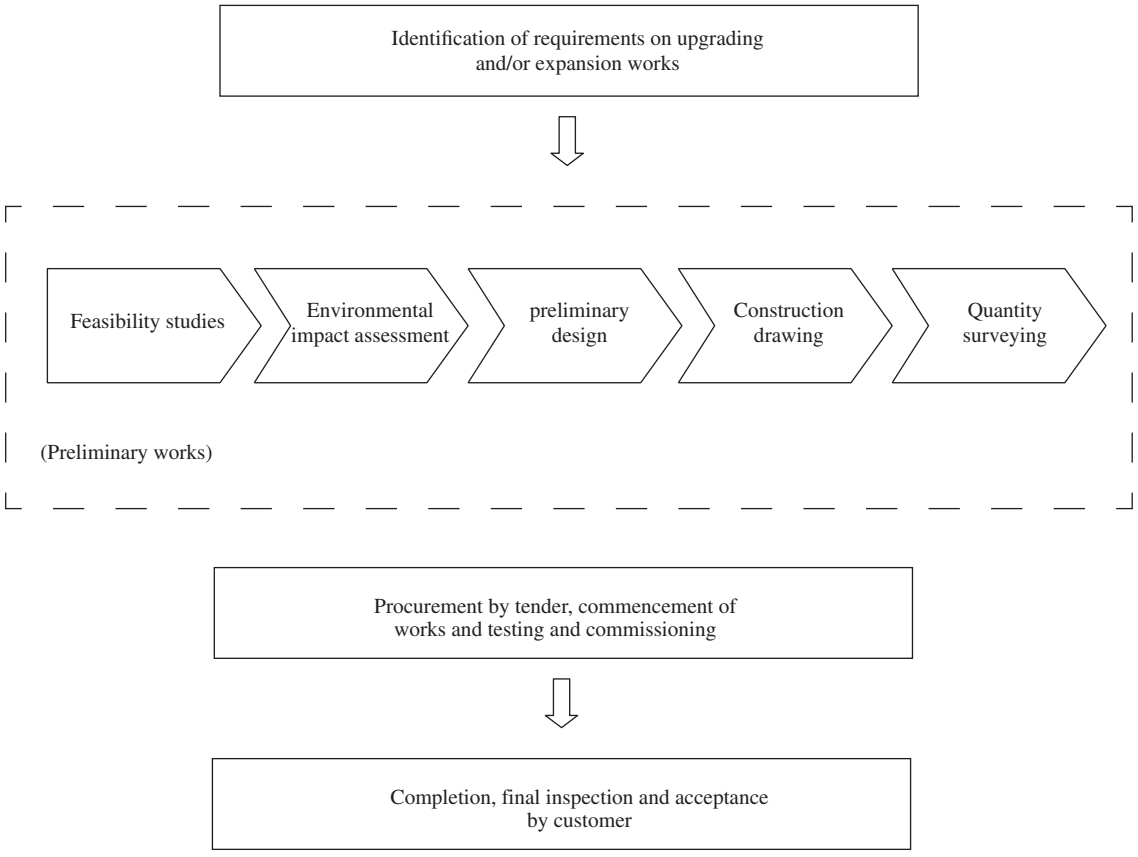
3. The expected completion dates as disclosed in the above summary table are based on the expected construction periods of the relevant contemplated upgrading and/or expansion works as stated in the feasibility study reports approved by our customer as at the Latest Practicable Date. For Plant 4, the expected completion date stated above was estimated based on the construction period stated in the relevant feasibility study report approved by our customer and by reference to our preliminary projection of the timing for commencement of the expansion works. However, it is still uncertain as to when our Group will be permitted to commence such expansion works as at the Latest Practicable Date and we expect the timeframe within which we shall complete such expansion works will be further determined and agreed with our customer at a later stage. Pursuant to the Concession Agreement, in case we fail to complete our remaining works within the timeframe agreed by our customer attributable to our fault, namely, where (i) the delays are not attributable to the requirements or change in requirements by our customer or any other government authorities; or (ii) any delays of the relevant government authorities in granting the subsequent relevant approvals for our commencement of construction works; or (iii) any force majeure events, then we may face claims against us, termination of our services in whole or in part under the Concession Agreement and we may be required to pay liquidated damages to our customer for their loss.

   For further details of such consequences, please see "Risk Factors — Our Group's customer for our wastewater treatment services may make claims against us and/or terminate our services in whole or in part should we fail to complete the upgrading and expansion works within the prescribed timelines under the Concession Agreement or as permitted by our customer" in this document.

4. For Plant 1, as at the Latest Practicable Date, its upgrading to discharge standard Class 1A had entered the testing and commissioning stage, we had not experienced any material delays in the upgrading works for Plant 1 and we do not anticipate any potential impact on our Group's profitability and/or financial position to be caused by delays to such works since we do not foresee any potential delays to the completion of such upgrading works by the end of 2018.

PROJECT MANAGEMENT PROCESS IN UPGRADING AND EXPANSION WORKS

Set out below is a simplified flowchart illustrating our project management procedures in carrying out our contemplated upgrading and expansion works



Identification of the requirements on upgrading and/or expansion works

The requirements on upgrading and/or expansion works were initially provided in the Concession Agreement, namely, (i) under the Original Concession Agreement, TYW was obliged to undertake upgrading works for the Wastewater Treatment Plants from Class II to Class IB, and expansion of capacity for each of Plant 2 and Plant 3 from 50,000 cubic metres per day to 100,000 cubic metres per day; and (ii) subsequently under the Framework Agreement, TYW is required to upgrade the discharge standard for each the four Wastewater Treatment Plants to Class IA instead of Class IB and to expand the capacity for Plant 4 from 100,000 cubic metres per day to 180,000 cubic metres per day. Through subsequent correspondences between our customer and TYW, we were informed of the additional requirements on the capacity expansion for Plant 4 to 200,000 cubic metres per day and the discharge standard in respect of the 100,000 cubic metres per day additional capacity shall be Quasi Surface Water Quality Standard Class IV (準四類水標準).

Feasibility Studies

After identification of the requirements on upgrading and/or expansion works applicable to our facilities, we will engage a design institute with appropriate qualification and experience to carry out a feasibility study. With the assistance of the design institute, a feasibility study report will be prepared setting out, among other things, the overview of the current status of the Wastewater Treatment Plants, including treatment capacity, existing wastewater treatment process flow and incoming wastewater qualities, and preliminary proposals on how to achieve the upgrading and/or expansion goalsworks and construction works involved, estimated capital investment for the upgrading and/or expansion and evaluation of operating costs upon commencement of operation of the upgraded and/or expanded wastewater treatment facilities. The feasibility study report will be submitted to the relevant local governmental authorities for approval.

Environmental Impact Assessment

Upon obtaining approval for the feasibility study, we will appoint and engage a licensed environmental impact assessment consultant to assist us to prepare an environmental impact assessment report. This report will be submitted to the relevant local government authorities for approval.

Preliminary Design

Upon obtaining the approvals of the feasibility study and environmental impact assessment reports, we will appoint and engage a design institute to prepare a preliminary design plan setting out, among other things, the overall preliminary construction design plan, labour resources required, estimated construction costs. The design plans will be submitted to the relevant authorities for approval.

Construction Drawing

Once the approval on the preliminary design plan is obtained, detailed construction drawings will be prepared by the design institute. The construction drawings will be submitted to the relevant governmental authorities for verification.

Quantity Surveyor

We will appoint and engage a qualified quantity surveyor to prepare a detailed estimation of the construction cost in accordance to the construction drawing. This estimated cost will be used as a guide for us to set the base value for the tender.

Procurement by tender, execution of upgrading and/or expansion works and testing and commissioning

Upon obtaining the necessary approvals and permits, we will select civil and structural contractor and mechanical and electrical equipment suppliers via competitive tenders.

Construction and procurement of mechanical and electrical equipment will commence after we enter into respective contracts with the selected contractors and suppliers. For further details of this public tender process, please see "Our suppliers — Tendering procedures in relation to upgrading and expansion works" in this section.

We will oversee and manage the construction and installation according to the construction drawing and ensure the quality of the completed works and compliance with the relevant safety and environmental protection requirements, typically with the assistance of construction project supervision agent engaged by us.

Once the upgrading and/or expansion works are completed, we will perform testing and commissioning together with the contractor and equipment suppliers.

Status of wastewater treatment operations during upgrading and expansion works

During the Track Record Period and up to the Latest Practicable Date, the upgrading and expansion works performed on our Wastewater Treatment Plants were primarily to increase our designed treatment capacities and/or to achieve higher wastewater discharge standards, which would involve (i) the construction of addition relevant facilities, which typically would not cause disruption to our wastewater treatment operations as wastewater would not be directed from the existing facilities to such new facilities until the new facilities commenced wastewater treatment operations; and/or (ii) upgrading works to be performed on our existing facilities while maintaining our normal wastewater treatment operations by utilising our backup treatment capacities, or on a rare occasion, temporary suspension of our wastewater treatment operations for subject wastewater treatment plant. During the Track Record Period and up to the Latest Practicable Date, save for a period of temporary suspension to Plant 1's wastewater treatment operations (the "**Plant 1 Temporary Suspension Period**") attributable to the upgrading works on Plant 1, which was approved by the relevant authorities and that our Group was entitled to receive tariff payment with respect to the guaranteed minimum volume (i.e. the basic volume) of Plant 1 during the Plant 1 Temporary Suspension Period, our Wastewater Treatment Plants did not experience any material suspension to our wastewater treatment operations nor did our Group subject to any penalty imposed by the relevant authorities attributable to temporary suspension of wastewater treatment operations. Having considered the length of the Plant 1 Temporary Suspension Period, the relevant circumstances were isolated and non-recurring in nature as well as the extent and frequency of disruption experienced by our Group, our Directors are of the view that the upgrading and expansion works performed on our Wastewater Treatment Plants did not cause material disruption to our wastewater treatment operations during the Track Record Period and up to the Latest Practicable Date.

Completion, final inspection and acceptance by customer

The timing for completion vary depending on the nature and scope of the upgrading or expansion works, and we are generally responsible for the overall construction management and eventual testing and commissioning of our facilities after carrying out of the upgrading and/or expansion works. For further details of the latest status of the contemplated upgrading and expansion works, please see the summary table in "Our existing wastewater treatment facilities" in this section.

After the completion of the relevant construction and installation works, we will apply for the environmental protection inspection and acceptance and completion acceptance.

PROJECT FINANCING

Under the Concession Agreement, TYW is responsible to provide funding for the operations and maintenance as well as the upgrading and expansion works of our wastewater treatment facilities. The initial consideration of RMB810.0 million (equivalent to approximately HK$1,012.5 million) for acquiring the concession right and taking over the underlying assets of the facilities under the TOT Transfer Agreement, out of the RMB810.0 million (equivalent to approximately HK$1,012.5 million) where RMB526.5 million (equivalent to approximately HK$658.1 million) was funded by bank loan and the remaining was funded by shareholder's equity. Such bank loan is a 16-year term loan with a fixed repayment schedule, out of which approximately RMB471.4 million (equivalent to approximately HK$589.3 million) was still outstanding as at 31 August 2018 and the Group was still in the course of repaying such outstanding bank loan in accordance with the terms of the relevant bank facility agreement. As at the Latest Practicable Date, our daily operating costs are mainly funded by our internally generated funds and a fixed-term working capital loan facility of RMB17.5 million (equivalent to approximately HK$21.9 million) with a term from 1 January 2017 to 30 June 2019.

Since we took over the operations of our plants and up to 31 December 2017, we have incurred an aggregate amount of approximately HK$310.7 million in the contemplated upgrading and expansion works, with approximately HK$161.8 million by shareholder's equity and approximately HK$148.9 million by project loans. As at the Latest Practicable Date, we had four project loans to partially finance the construction costs of the contemplated upgrading and expansion works with (i) fixed terms ranging from two years to 10 years; and (ii) respective maturity dates ranging from 2019 to 2027. All of our bank loans are secured by (i) the receivable of our wastewater treatment service fees; and (ii) the land use rights over the land parcels on which our Wastewater Treatment Plants are located.

As at 30 April 2018, we estimated that the construction costs required to complete the remaining contemplated upgrading and expansion works is approximately RMB468.0 million (equivalent to approximately HK$585.0 million) (inclusive of the estimated construction cost for the upgrading to Quasi Surface Water Standard Class IV (準四類水標準) for the additional capacity of 100,000 cubic meters to be built at Plant 4), which is expected to comprise of (i) purchase of equipment and installation cost of approximately RMB231.6 million (equivalent to approximately HK$289.5 million); (ii) costs for civil and structural works of approximately RMB158.3 million (equivalent to approximately HK$197.9 million); (iii) design and exploration cost of approximately RMB35.2 million (equivalent to approximately HK$44.0 million); and (iv) other ancillary costs of approximately RMB42.9 million (equivalent to approximately HK$53.6 million). The above-mentioned estimated construction cost is expected to be satisfied as to (i) approximately 65% by bank borrowings (including unutilised bank facilities and additional bank facilities to be obtained by our Group in future); and (ii) the remaining approximately 35% by a combination of internally generated funds and approximately [REDACTED] of the net proceeds from the [REDACTED], being approximately HK$[REDACTED]. It is expected that, out of the aforesaid estimated construction costs, (i) approximately HK$204.9 million shall be incurred during the year ending 31 December 2018; and (ii) the remaining approximately HK$436.1 million shall be incurred subsequent to the year ending 31 December 2018.

As at 30 April 2018, we had cash and cash equivalents of approximately HK$199.7 million and unutilised banking facilities of approximately HK$250.0 million. The usage of each of our banking facilities are restricted to that as stipulated in the relevant loan agreements such that each project loan is restricted to financing the construction costs of the contemplated upgrading the expansion works for

subject wastewater treatment plant only, and the funds that can be drawdown from the working capital loan facility can only be used for the daily operations of the Wastewater Treatment Plants. Accordingly, after deducting the unutilised amounts under the project loan for Plant 3 (since all its contemplated upgrading and expansion works had been completed in 2015) and the working capital loan, the unutilised banking facilities under the project loans that can be applied to fund the remaining contemplated upgrading and expansion works was approximately HK$224.6 million as at 30 April 2018.

Based on the above, despite that our Group had cash and cash equivalents of approximately HK$199.7 million and unutilised banking facilities that can be applied to finance the construction costs of the contemplated upgrading and expansion works of approximately HK$224.6 million as at 30 April 2018, our Directors estimate that there was a shortfall of approximately HK$[REDACTED] as at 30 April 2018 for completing the contemplated upgrading and expansion works that are not covered by our Group's existing banking facilities and cash on hand as at 30 April 2018 and is expected to be satisfied by the [REDACTED] of the net proceeds from the [REDACTED], additional bank borrowings and internally generated funds.

In order to meet the increasingly stringent wastewater discharge standards and treatment capacities requirements, going forward, in the event that further upgrading and/or expansion works are assigned to us by the local government which require further construction costs, or such upgrade and/or expansion will lead to higher operating costs, we may consider seeking additional financing from banks if the management is of the opinion that it is necessary and it is beneficial to the Company, we may provide the necessary collaterals over our receivables and/or land use rights allocated to us as may be allowed under the Concession Agreement.

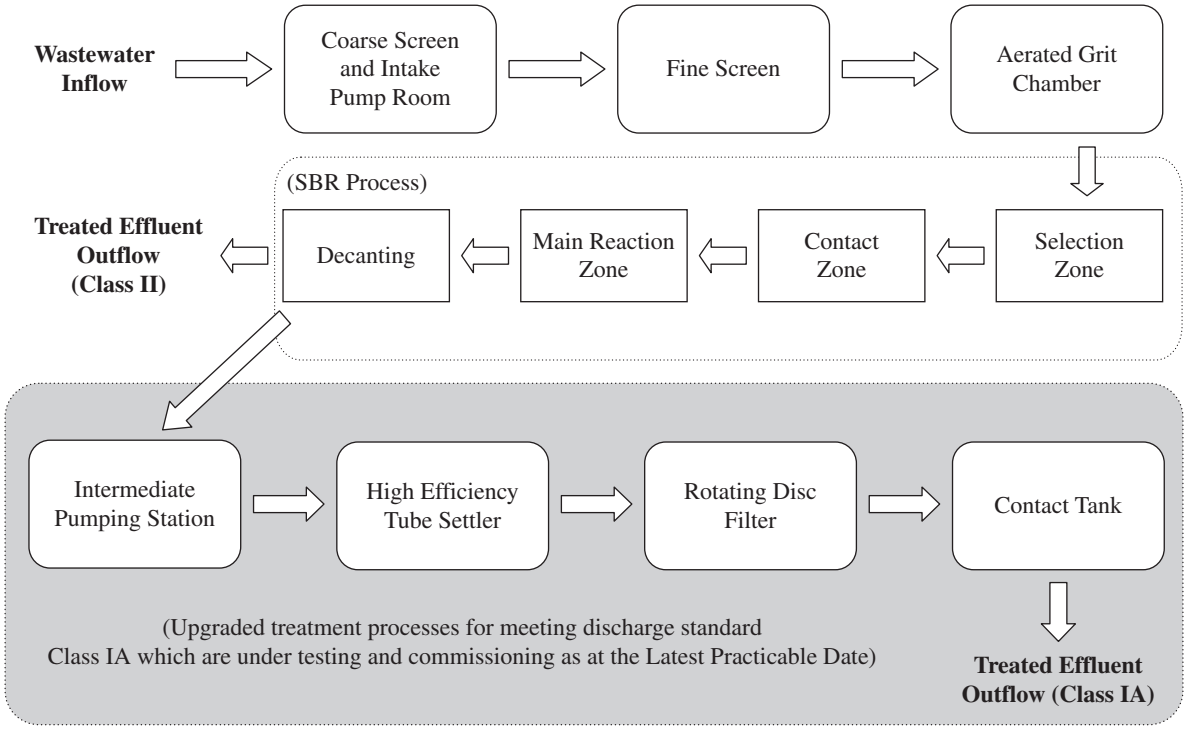
During the Track Record Period, (i) the interest rate of the aforesaid 16-year term loan for financing the acquisition of our TOT project was approximately 5.4% per annum; (ii) the interest rate of our project loan for Plant 1 ranged from approximately 5.6% to 6.0% per annum; (iii) the interest rate of our project loan for Plant 3 ranged from approximately 5.6% to 5.9% per annum; (iv) the interest rate of our project loans for Plant 2 and Plant 4 was approximately 5.6% per annum; and (v) the interest rate of our working capital loan was approximately 5.0% per annum.

Pursuant to the respective agreements of our four project loan facilities and our working capital loan, our bank borrowings shall bear interest rates which are linked to either the PBOC published benchmark lending rates or the benchmark lending rates quoted by our lending bank from time to time. During the Track Record Period, the interest rates of our bank borrowings were linked to the PBOC published benchmark lending rates and we expect that such benchmark lending rates would continue to be adopted for the remaining unutilised portions of our banking facilities under the existing loan facility agreements.

Based on our total investment cost incurred for the Wastewater Treatment Plants comprising the consideration for the taking over of the underlying assets and the total construction costs incurred for the upgrading and expansion works, and the remaining estimated construction costs for completing the remaining upgrading and expansion works, the estimated investment payback period under the Concession Agreement is approximately 12 to 13 years from the date of the Concession Agreement, which was calculated based on the number of years that aggregate undiscounted net operating cash flow equals the total investment amount.

Overview of the wastewater treatment processes in our four existing wastewater treatment plants

Below is a flow chart illustrating the treatment process in Plant 1:

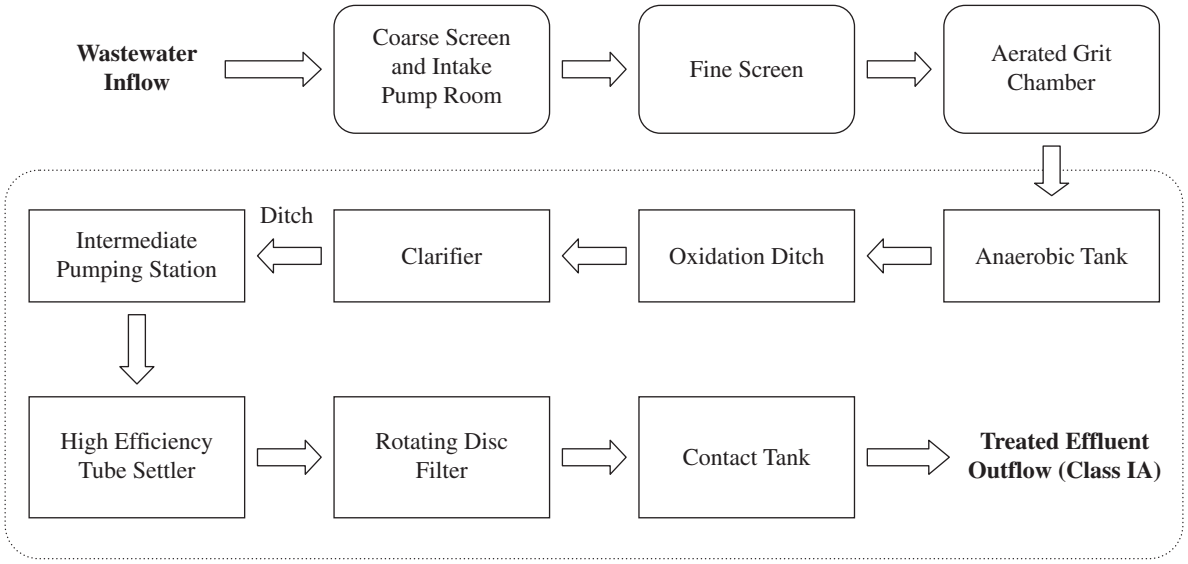


Plant 1 currently treats municipal wastewater discharged from Yinchuan.

The incoming wastewater flows through the coarse screen where larger size suspended solids and particles are removed before entering the intake pump sump. At the intake pump sump, wastewater is pumped to the fine screen for second stage screening. After the two-stage screening, wastewater flows through the aerated grit chamber where silt, sand, gravel etc. are removed. Subsequently, wastewater flows into the selection tank where wastewater is mixed and homogenised for distribution to the respective SBR. At the SBR tanks wastewater is aerated and goes through a sequence of biological treatment processes. For treating wastewater to meet discharge standard Class II, the whole treatment process ends here and is diverted to the outflow for discharge. For the discharge standard to meet Class IA, after the wastewater has gone through the aeration and a sequence of biological treatment processes at the SBR tanks, it will then be discharged through the decanter into the intermediate pump sump. It is then pumped to the high efficiency tube settlers where chemicals are injected for flocculation and coagulation and thereafter floc and suspended solids are settled and removed. Subsequently the settled water is passed through the rotating disc filter for final filtration before entering the contact tank for disinfection (chlorine or other suitable chemicals are used). The final treated effluent of Class IA standard will finally be discharged to pipeline network managed by the local government.

The sludge generated in the wastewater treatment plant is dewatered and transported to disposal sites designated by the local government.

Below is a flow chart illustrating the treatment process in Plant 2:

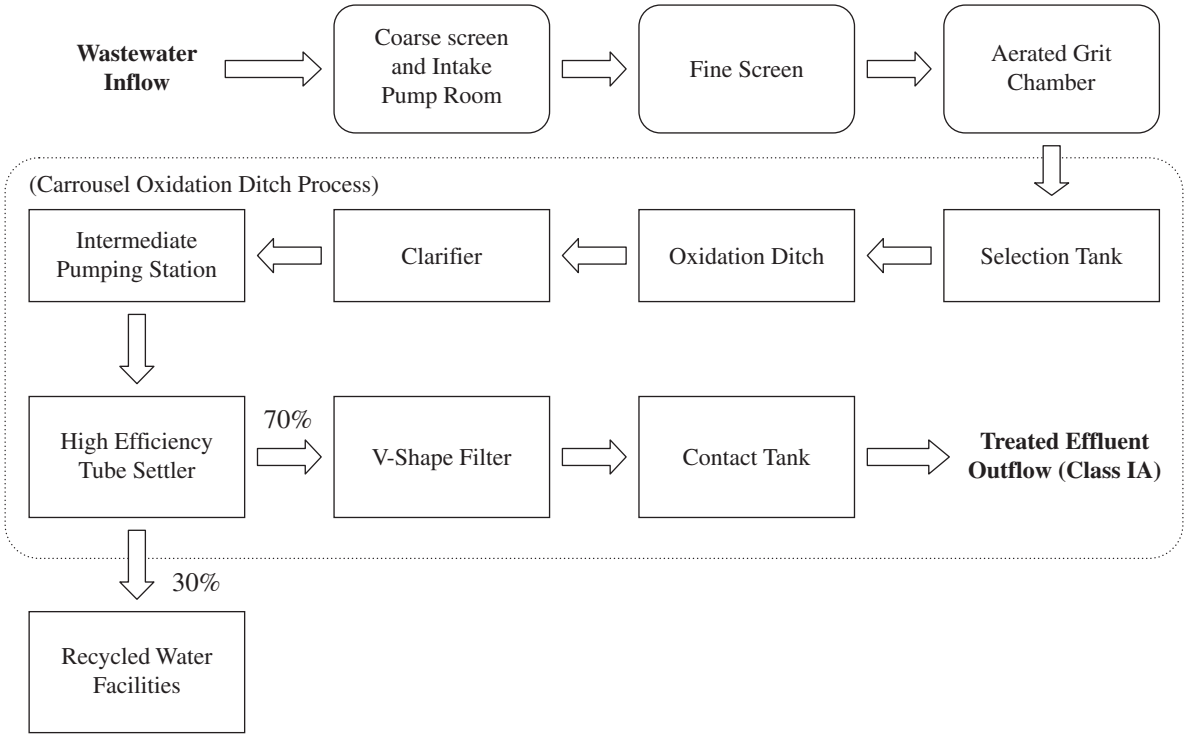


Plant 2 currently treats municipal wastewater discharged from Yinchuan.

The incoming wastewater flows through the coarse screen where larger size suspended solids and particles are removed before entering the intake pump sump. At the intake pump sump, wastewater is pumped to the fine screen for second stage screening. After the two-stage screening, wastewater flows through the aerated grit chamber where silt, sand, gravel etc. are removed. Subsequently, the wastewater flows into the anaerobic tank to commence biological treatment without the presence of oxygen. After that, wastewater enters the oxidation ditch with surface aerators and are then mixed with microorganisms in the sludge. The microorganism activities take place by having the microorganisms feeding on and breaking down the organic pollutants. Thereafter, the wastewater enters the clarifier where a sedimentation process happens. It is then pumped to the high efficiency tube settlers where chemicals are injected for flocculation and coagulation and thereafter floc and suspended solids are settled and removed. Subsequently the settled water is passed through the rotating disc filter for final filtration before entering the contact tank for disinfection (chlorine or other suitable chemicals are used). The final treated effluent of Class IA Standard is finally discharged to pipeline network managed by the local government.

The sludge generated in the wastewater treatment plant is dewatered and transported to disposal sites designated by the local government.

Below is a flow chart illustrating the treatment process in Plant 3:



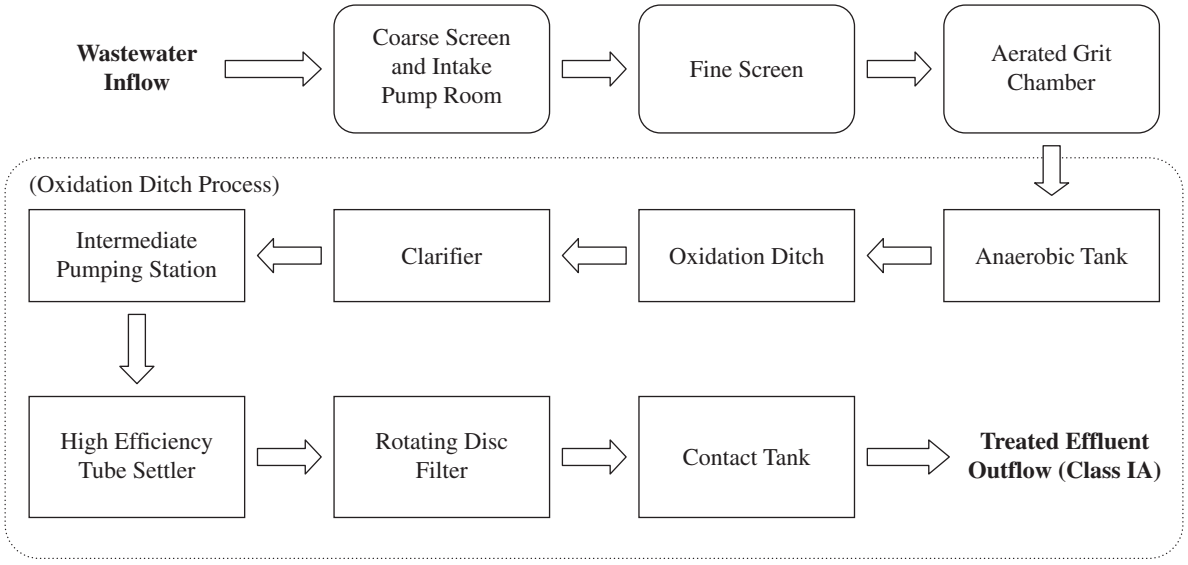
The wastewater treated by Plant 3 currently comprises both municipal wastewater and industrial wastewater discharged from Yinchuan.

The wastewater treatment processes in Plant 3 is similar to those taking place in Plant 2 except that after the grit removal process in the aerated grit chamber, the wastewater then flows into the selection tank where a mixing process takes place to prevent the sludge from settling. There is no anaerobic tank in Plant 3, instead, after going through the selection tank, the wastewater enters the oxidation ditch with surface aerators whereby the wastewater is mixed with microorganisms in the sludge and microorganisms activities take place by having the microorganisms feeding on and breaking down the organic pollutants. After that, the wastewater flows into the clarifiers and thereafter to the intermediate pump sump. The wastewater is then pumped to the High Efficiency Tube Settler to continue with a further solids and pollutants removal process. Thereafter, around 70% of the wastewater enters the V filter (Sand Filter) for filtration. The wastewater from the filter flows to the contact tank for disinfection (chlorine or other suitable chemicals are used) before it is finally discharged into the public pipeline network managed by the local government.

The remaining 30% of the wastewater from the High Efficiency Tube Settler enters the recycled water treatment facilities located in Plant 3 for further treatment before supply to industrial usage and landscaping purposes.

The sludge generated in the wastewater treatment plant is dewatered and transported to disposal sites designated by the local government.

Below is a flow chart illustrating the treatment process in Plant 4:



Plant 4 currently treats municipal wastewater discharged from Yinchuan.

The incoming wastewater flows through the coarse screen where larger size suspended solids and particles are removed before entering the intake pump sump. At the intake pump sump, wastewater is pumped to the fine screen for second stage screening. After the two-stage screening, wastewater flows through the aerated grit chamber where silt, sand, gravel etc. are removed. Subsequently, the wastewater flows into the anaerobic tank to commence biological treatment without the presence of oxygen. After that, wastewater enters the oxidation ditch with surface aerators and mixed with microorganisms in the sludge. The microorganism activities take place by having the microorganisms feeding on and breaking down the organic pollutants. Thereafter, the wastewater enters the clarifier where sedimentation process happens. It is then pumped to the High Efficiency Tube Settlers where chemicals are injected for flocculation and coagulation and thereafter floc and suspended solids are settled and removed. Subsequently the settled water is passed through the Rotating Disc Filter for final filtration before entering the contact tank for disinfection (chlorine or other suitable chemicals are used). The final treated effluent of Class IA Standard is finally discharged to pipeline network managed by the local government.

The sludge generated in the wastewater treatment plant is dewatered and transported to disposal sites designated by the local government.

MAINTAINING THE QUALITY OF OUR SERVICES

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material quality problems or disruptions with respect to our wastewater treatment services and recycled water supplies.

During the history of our operations of the Wastewater Treatment Plants, we have actively pursued strict and standardised quality control procedures and monitoring systems such that the operators will carry routine inspection on our Wastewater Treatment Plants. This is to ensure stable operations and avoid any disruption to our operations.

Quality control team

As at the Latest Practicable Date, our quality control team consists of 10 members, with one of them being the quality control manager, all of whom possess relevant academic qualifications and the necessary industry experience to perform laboratory analyses on incoming and outflowing wastewater.

Examination of water quality

We have a laboratory situated within each of our Plant 1 and Plant 2, where regular laboratory analysis are performed on the water samples collected at the inflow and outflow of each of our Wastewater Treatment Plants. The water samples are collected on a regular basis from the Wastewater Treatment Plants. The laboratory in Plant 1 is responsible for performing laboratory analysis for the wastewater samples of Plant 1 and Plant 4, and the one situated in Plant 2 is responsible for performing laboratory analysis for the wastewater samples of Plant 2 and Plant 3. In the event the levels of pollutants in the incoming wastewater is found to have exceeded the designed parameters, our technical team will be alerted and they will take the necessary measures to ensure the outflow quality will meet the relevant standards. If the pollutants in the incoming wastewater significantly exceed the design of products such that our outflow water quality may be affected, we will promptly report to the relevant governmental authorities, and under the Concession Agreement, we shall not be liable for not meeting the relevant discharge standard and in case we suffer any loss due to such kind of incident not caused by our own fault, we are entitled to compensation from local government.

Online real-time monitoring by government

Each of our wastewater treatment facilities has a sensor installed at its outflow pipes which transmits the key parameter data directly to the local environmental protection bureau for monitoring the quality of wastewater treated by our facilities on real-time basis. Such online real-time sensors and meters are maintained and controlled by Independent Third Parties designated by the local government.

Inspection of chemicals

Certain chemicals are used by us during wastewater treatment process. Our quality control team will perform regular analysis on such chemicals procured by us to ensure the quality are up to standard. Any substandard quality of chemicals will be reported to the plant manager and/or our senior management for investigation and decision making together with follow up actions. This is to ensure our treated wastewater will meet all the prescribed discharge standard/parameters.

Regular inspection

Every two hours inspections are carried out by our operating team in order to avoid disruptions to our operations. Any unusual circumstances will be reported to the manager of the plant and/or our senior management for investigation and decision-making together with follow up actions and report to environmental related government authorities, if necessary. Electronic tracking devices are installed at various locations within the plant to ensure that such regular inspections are carried out on schedule.

Regular maintenance of instruments and equipment

To avoid disruptions to our operations, our in-house team of technicians will carry out regular repair and maintenance on all the facilities and equipment. In some occasions where we need external supports on the repair and maintenance works, we will hire external specialists to help us perform the necessary repair and maintenance in order to avoid any disruption to our operations.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material quality problems or disruptions with respect to our wastewater treatment services and recycled water supplies.

SUPPLY OF RECYCLED WATER

During the Track Record Period, we had supplied recycled water, which was the treated wastewater processed by our Plant 1 and Plant 3, to end users which included but not limited to a power plant and a public institution in Yinchuan in charge of public area landscaping, which are the two largest customers of our recycled water business, and approximately 2.5%, 2.5%, 1.5% and 1.5% of our revenue was derived from this segment, respectively.

For our sale of recycled water, we generally receive supply fees calculated based on the volume of water supplied by us multiplied by the unit price agreed with our customers.

The recycled water is delivered from our facilities to the designated locations of our customers through pipeline network built and maintained by the local government and our customers of recycled water.

We have entered into supply agreements of recycled water with our two largest recycled water customers during the Track Record Period, with terms managing from one year to 30 years. Unit price was determined by negotiation between both parties with reference to local government's guidelines on pricing recycled water pricing published from time to time. We are required to measure the volume of water supplied to our customer jointly with representatives of our customers and we bill our customer based on the volume measured and confirmed by both parties.

Payment terms and credit control

Upon the measurement of the volume of recycled water supplied for the current month which has been confirmed by both parties, we will issue our monthly bill to the customers with our fee calculated based in the supplied volume multiplied by the unit price. Our customers are generally required to settle our monthly bills within five working days upon receipt of our bills.

SALES AND MARKETING

Given the nature of our provision of wastewater treatment services where are operations involve close collaboration with the local governmental authorities and our wastewater treatment fees are directly linked to the wastewater treatment volume supplied to us by the local government under the Concession Agreement, we do not have specific sales and marketing activities for our provision of wastewater treatment services. For our sale of recycled water, we have a business development team to maintain customer relations and explore opportunities of expanding sales of our recycled water to new customers.

OUR CUSTOMERS

During the Track Record Period, our largest customer is Yinchuan Construction Bureau for our wastewater treatment service. In regards to our business of supply of recycled water to end users, our two largest recycled customers during the Track Record Period were a power plant and a public institution in Yinchuan in charge of public area landscaping works. We have entered into the Concession Agreement with Yinchuan Construction Bureau for our wastewater treatment services and we usually entered into recycled water supply agreements with our recycled water supplies customers. For details of the salient terms of the Concession Agreement and our recycled water supply agreements, please refer to the subsections headed "Salient Terms of the Concession Agreement" and "Supply of Recycled Water" in this section.

During the Track Record Period, we did not receive any material complaints from our customers. Pursuant to the Concession Agreement, the credit period of our monthly service fees is approximately 20 days after the issuance of our bill. However, historically and up to the Latest Practicable Date, the local government has the practice of paying us a lump sum amount on a quarterly basis to settle our monthly bills. For our recycled water supply customers, our customers generally settle our monthly bills on a monthly basis after the issuance our monthly bills.

Our largest customer during the Track Record Period was Yinchuan Construction Bureau. For the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, revenue attributable to our largest customer amounted to approximately HK$243.1 million, HK$201.2 million, HK$359.8 million and HK$135.5 million, respectively, representing approximately 97.0%, 97.0%, 98.2% and 98.0%, respectively of our total revenue. The revenue attributable to our top five largest customers for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018 was approximately HK$248.9 million, HK$205.8 million, HK$365.0 million and HK$137.6 million, respectively. The percentage of our total revenue attributable to our top five customers for the same periods was approximately 99.3%, 99.3%, 99.6% and 99.4%, respectively.

Concentration of customer and sustainability

Despite the fact that the most of our revenue has been contributed by our largest customer, Yinchuan Construction Bureau, and we only have one TOT project to operate and manage four wastewater treatment facilities under the Concession Agreement, our Directors believe that the reliance between us and Yinchuan Construction Bureau is mutual and complimentary in the manner that our customer also relies on our expertise, experience, funding capabilities and human resources we put into our operations to process wastewater generated in Yinchuan so as to facilitate the local government in achieving its goal in environmental protection and protect the livelihoods of the local communities. The

sustainability of our business is further safeguarded by the fact that we have entered into the Concession Agreement with Yinchuan Construction Bureau for a fixed terms of 30 years. During such concession period, we shall have an exclusive right to operate and manage our Wastewater Treatment Plants to provide our wastewater treatment services with a pre-agreed tariff and a contractually guaranteed basic volume of wastewater applicable to our individual Wastewater Treatment Plants for the purpose of calculation of our wastewater treatment service fees which guarantees us a stable level of incoming cash flow, provided that we are able to deliver our wastewater treatment services up to the required standards.

For the risks associated with the high concentration of revenue derived from our largest customer, please refer to "Risk Factors — Our Group's largest customer accounted for approximately 97.0%, 97.0%, 98.2% and 98.0% of our revenue during each of the financial years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively, and in the event that our Concession Agreement is early terminated, it could have a material adverse impact on our business, financial condition and operational results" in this document.

To the best knowledge of our Directors, all our customers are Independent Third Parties. None of our Directors, their associates or any Shareholders who, to the best knowledge of our Directors, owned more than 5% of the share capital of the Company, had any interest in any of our customers. During the Track Record Period, none of our customers are also our suppliers.

The table below set out the details of our top five customers during the Track Record Period:

For the year ended 31 December 2015

Customer	**Commencement of business relationship**	**Business nature**	**Revenue** *(HK$'000) (approximate)*	**Percentage of our total revenue**
Yinchuan Construction Bureau	2012	Provide wastewater treatment service	243,131.1	97.0%
Customer B	2012	Supply recycled water	5,055.2	2.0%
Customer C	2012	Supply recycled water	344.9	0.1%
Customer D	2015	Provide wastewater treatment service	208.2	0.1%
Customer E	2012	Supply recycled water	199.7	0.1%
Total revenue derived from our top five customers			248,939.1	99.3%

For the year ended 31 December 2016

Customer	Commencement of business relationship	Business nature	Revenue *(HK$'000) (approximate)*	Percentage of our total revenue
Yinchuan Construction Bureau	2012	Provide wastewater treatment service	201,156.3	97.0%
Customer B	2012	Supply recycled water	3,943.4	1.9%
Customer C	2012	Supply recycled water	374.1	0.2%
Customer D	2015	Provide wastewater treatment service	187.7	0.1%
Customer F	2012	Supply recycled water	148.7	0.1%
Total revenue derived from our top five customers			205,810.2	99.3%

For the year ended 31 December 2017

Customer	Commencement of business relationship	Business nature	Revenue *(HK$'000) (approximate)*	Percentage of our total revenue
Yinchuan Construction Bureau	2012	Provide wastewater treatment service	359,840.7	98.2%
Customer B	2012	Supply recycled water	4,636.7	1.3%
Customer G	2012	Supply recycled water	223.4	0.1%
Customer C	2012	Supply recycled water	190.4	0.0% *(Note)*
Customer F	2012	Supply recycled water	106.4	0.0% *(Note)*
Total revenue derived from our top five customers			364,997.6	99.6%

Note: The revenue derived from Customer C and Customer F was less than 0.1% of our total revenue for the period indicated.

For the four months ended 30 April 2018

Customer	Commencement of business relationship	Business nature	Revenue *(HK$'000) (approximate)*	Percentage of our total revenue
Yinchuan Construction Bureau	2012	Provide wastewater treatment service	135,505.0	98.0%
Customer B	2012	Supply recycled water	1,993.3	1.4%
Customer G	2012	Supply recycled water	32.8	0.0% *(Note)*
Customer H	2017	Supply recycled water	30.0	0.0% *(Note)*
Customer C	2012	Supply recycled water	25.8	0.0% *(Note)*
Total revenue derived from our top five customers			137,586.9	99.4%

Note: The revenue derived from Customer C, Customer G and Customer H was less than 0.1% of our total revenue for the period indicated.

OUR SUPPLIERS

During the Track Record Period, our principal suppliers were construction contractors, design institutes and supervision agencies engaged by us to carry out our contemplated upgrading and expansion works, suppliers of chemicals used in our wastewater treatment processes and suppliers of materials for equipment maintenance and replacements. We have been working with our major suppliers for periods ranging from one year to more than five years. During the Track Record Period, the credit terms offered by our top five suppliers range from 7 days to 60 days.

Our largest supplier during the Track Record Period was a construction contractor engaged for undertaking our contemplated upgrading and expansion works. Our purchases from our largest supplier for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018 were approximately HK$46.0 million, HK$25.4 million, HK$69.0 million and HK$32.1 million respectively, representing approximately 43.3%, 39.7%, 33.8% and 47.2% of our total purchases, respectively. Our purchases from our top five suppliers for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018 were approximately HK$84.2 million, HK$50.1 million, HK$111.4 million and HK$42.8 million, respectively, amounting to approximately 79.2%, 78.3%, 54.5% and 63.0% of our total purchases, respectively.

The table below set out the details of our top five suppliers during the Track Record Period:

For the year ended 31 December 2015

Supplier	Commencement of business relationship	Business nature	Procurement amount *(HK$'000) (approximate)*	Percentage of our total purchase
Supplier A	2014	Supplier of equipment	46,035.1	43.3%
Supplier B	2014	Subcontractor for construction for plant upgrades	15,181.1	14.3%
Supplier C *(Note)*	2015	Supplier of chemicals	13,135.3	12.3%
Supplier D	2014	Subcontractor for construction for plant upgrades	8,505.7	8.0%
Supplier E	2013	Supplier of construction-related services for plant upgrades	1,384.2	1.3%
Total purchases from top five suppliers			84,241.4	79.2%

For the year ended 31 December 2016

Supplier	Commencement of business relationship	Business nature	Procurement amount *(HK$'000) (approximate)*	Percentage of our total purchase
Supplier B	2014	Subcontractor of construction for plant upgrades	25,408.6	39.7%
Supplier C *(Note)*	2015	Supplier of chemicals	21,623.9	33.8%
Supplier F	2015	Supplier of chemicals	1,260.6	2.0%
Supplier G	2015	Supplier of chemicals	998.5	1.6%
Supplier H	2012	Supplier of chemicals	787.8	1.2%
Total purchases from top five suppliers			50,079.4	78.3%

Note: Supplier C consists of two companies both supplying chemicals to our Group, with one being wholly-owned by the other. For this reason, the procurement amounts in relation to them are presented on aggregate basis.

For the year ended 31 December 2017

Supplier	Commencement of business relationship	Types of materials/services procured	Procurement amount *(HK$'000) (approximate)*	Percentage of our total purchase
Supplier B	2014	Subcontractor of construction for plant upgrades	68,974.5	33.8%
Supplier I	2017	Subcontractor of construction for plant upgrades	18,112.1	8.9%
Supplier J	2014	Supplier of equipment	12,779.7	6.2%
Supplier K	2017	Supplier of equipment	6,537.6	3.2%
Supplier L	2017	Supplier of chemical	4,995.6	2.4%
Total purchases from top five suppliers			111,399.5	54.5%

For the four months ended 30 April 2018

Supplier	Commencement of business relationship	Business nature	Procurement amount *(HK$'000) (approximate)*	Percentage of our total purchase
Supplier I	2017	Subcontractor of construction for plant upgrades	32,061.0	47.2%
Supplier M	2018	Supplier of equipment	3,116.1	4.6%
Supplier N	2017	Supplier of chemical	2,751.0	4.1%
Supplier L	2017	Supplier of chemical	2,442.7	3.6%
Supplier K	2017	Supplier of equipment	2,386.8	3.5%
Total purchases from top five suppliers			42,757.6	63.0%

To the best knowledge of our Directors, all our suppliers are Independent Third Parties. None of our Directors, Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our top five suppliers during the Track Record Period.

It is our general policy to maintain a list of approved suppliers in order to avoid over-relying on a single supplier. We have stable business relationships with our suppliers and they are familiar with our demand on quantity and requirements as to the quality of the materials and equipment required by us. During the Track Record Period, we were able to purchase or seek quotations or select the suppliers from multiple suppliers for each type of materials, equipment and services and we did not experience any shortage of our major materials, equipment and services and we do not anticipate any difficulties in

this regard in the foreseeable future. During the Track Record Period, we had not experienced any material dispute with our suppliers, nor any disruption, shortage or delay in the supply of materials or equipment or material disputes in relation to quality of subcontracting works performed or services which could materially and adversely affect our operations and financial conditions.

As at the Latest Practicable Date, we had not enter into any long-term purchase agreement with our suppliers.

We monitor our consumption of chemicals used in our wastewater treatment processes and make purchases to replenish the same regularly and as and when necessary. In our procurement of materials and equipment processes, we will follow our established internal quality control procedures to ensure the received materials and equipment meets our quality control standards.

In regard to the carrying out of our upgrading and/or expansion works, our construction contracts with contractors typically include provisions:

- defining the scope of works and the time for completion;
- asserting that our contractors are responsible for all damages, claims and losses suffered by us as a result of any delay in completion of and/or their failure to meet the quality specifications as set out in the construction contracts;
- restricting our contractors from further subcontracting without our prior consent; and
- giving us the right to terminate the contract and claim against the contractor for damages and compensation for our economic losses under certain circumstances.

Procurement procedures

For procurement of materials and equipment not related to our contemplated upgrading and expansion works, we have established a centralized internal procurement policy for the selection of suppliers. Depending on the type of materials, equipment or services to be procured, if the purchase amount is expected to exceed a certain threshold, we will invite multiple suppliers to provide quotations for our selection.

Tendering procedures in relation to upgrading and expansion works

For procurement of materials and equipment and construction-related services within the scope of our contemplated upgrading and expansion works, we must go through tender processes irrespective of the purchase or subcontracting amounts. During such process, a tender document will be issued by us to the suppliers who are invited to submit their tenders. A tender committee with several members will be established, comprising a majority of Independent Third Parties representatives chosen by balloting from a pool of local industry experts selected by the local government, and the remaining being representative(s) from us. Such tender committee will evaluate the bids taking into consideration factors including but not limited to qualification, expertise, price, past performance, quality of material and payment terms of the bidders. Such committee will then rank the bidders based on the result of evaluation. Generally, we will enter into the procurement contract with the bidder who has the highest ranking.

LICENCES AND PERMITS

The material licenses and permits required to conduct our business in the PRC primarily include the pollutants discharge permit (污染物排放許可證) for each of our Wastewater Treatment Plants. For more information regarding the PRC laws and regulations that we are subject to, please see the section headed "Regulatory Overview" in this document.

The following table sets forth the details of our material licenses and permits as of the Latest Practicable Date:

License/permit	**License/permit holder**	**Date of latest grant**	**Expiry date** *(Note)*
Pollutants discharge permit for Plant 1	TYW	29 March 2016	From 29 March 2016 to 29 March 2019
Pollutants discharge permit for Plant 2	TYW	10 November 2016	From 10 November 2016 to 10 November 2019
Pollutants discharge permit for Plant 3	TYW	1 December 2017	From 1 December 2017 to 1 December 2018
Pollutants discharge permit for Plant 4	TYW	8 May 2017	From 8 May 2017 to 8 May 2020

Note: Notwithstanding the validity periods with some being longer than one year, each of the pollutants discharge permit is subject to annual inspection in order for the permit to remain valid before its expiry.

As advised by our PRC Legal Adviser, as of the Latest Practicable Date, we have obtained all requisite licenses and permits that are material for our business operations in the PRC. All of these licenses and permits remain in full effect, and no circumstances exist that would render the revocation or cancellation of our licenses and permits or lead to any legal impediment to renew any of these material licenses and permits for our business operations in the PRC, as long as we comply with relevant legal requirements and take all necessary steps and submit relevant applications in accordance with the requirements prescribed by the applicable PRC laws and regulations.

AWARDS AND ACCREDITATIONS

We have received a number of awards and accreditations during our operating history, as set out below:

Awards and accreditations	Year of grant	Grantee	Issuing institution/authority
Advanced Entity that completed upgrading works for wastewater treatment plants* (污水處理廠提標升級改造工作先進單位) for the year of 2017	2018	TYW	Committee of Housing and Urban-Rural Development for Yinchuan of the Chinese Communist Party* (中共銀川市住房和城鄉建設系統委員會) and Yinchuan Construction Bureau
Grade A Corporate Tax Payer Rating* (A級納稅信用等級企業) for the year of 2017	2018	TYW	Collection and Management Bureau directly under the Local Taxation Bureau of Ningxia* (寧夏地方税務局直屬徵收管理局)
Grade A Corporate Tax Payer Rating* (A級納稅信用等級企業) for the year of 2017	2018	TYW	State Administration of Taxation of Jin Feng District of Yinchuan* (銀川市金鳳區國家税務局)
High Integrity Entity for Social Security Insurance* (銀川市社會保險誠信單位) for the year of 2017	2018	TYW	Yinchuan Human Resources and Social Security Bureau* (銀川市人力資源和社會保障局), Yinchuan Local Taxation Bureau* (銀川市地方税務局)
Grade A Corporate Tax Payer Rating* (A級納稅信用等級企業) for the year of 2015	2016	TYW	Collection and Management Bureau directly under the Local Taxation Bureau of Ningxia* (寧夏地方税務局直屬徵收管理局)
High Integrity Entity for Social Security Insurance* (銀川市社會保險誠信單位) for the year of 2015	2016	TYW	Yinchuan Human Resources and Social Security Bureau* (銀川市人力資源和社會保障局), Yinchuan Local Taxation Bureau* (銀川市地方税務局)
Advanced Unit for Publicity Actions for Housing and Construction in Yinchuan* (《銀川住房和建設》宣傳工作先進單位) for the year of 2014	2015	TYW	Building Construction Association of Yinchuan* (銀川市建築業協會)

Awards and accreditations	Year of grant	Grantee	Issuing institution/authority
Excellent Standard Achievement Entity* (先進達標單位) for the year of 2013 in the "National Urban Wastewater Treatment Performance and Standard Achievement Contest"* (全國城鎮污水處理廠績效達標競賽)	2013	TYW	China Urban Water Supply and Drainage Association* (中國城鎮供水排水協會) and China Marine Personnel Construction Trade Union National Committee* (中國海員建設工會全國委員會)
Advanced Entity for Sewage Discharge Reduction in Yinchuan* (銀川市污染減排工作先進單位) for the year of 2012	2013	Plant 2	Municipal Government of Yinchuan (銀川市人民政府)
National Advanced Group for Sewage Discharge Reduction* (全國減排先進集體)	2012	Plant 4	Yinchuan Human Resources and Social Security Bureau* (銀川市人力資源和社會保障局), State Development and Reform Committee* (國家發展改革委員會), Environmental Protection Bureau* (環境保護局), Finance Bureau* (財政局), as approved by the PRC Central Government

MARKET AND COMPETITION

According to the CIC Report, as of December 2017, out of a total of 36 wastewater treatment plants in Ningxia, eight of them are located in Yinchuan and operated by five wastewater treatment companies where seven of them were in operation. As of December 2017, the total designed treatment capacity of all the wastewater treatment plants in operation in Ningxia was 1,000,000 cubic metres per day and the total designed capacity of the eight wastewater treatment plants in Yinchuan were 575,000 cubic metres per day. As at the Latest Practicable Date, the total designed capacity of our Group's four Wastewater Treatment Plants was 375,000 cubic metres per day, representing approximately 37.5% of the total wastewater treatment capacity of Ningxia and approximately 65.3% of the total wastewater treatment capacity of Yinchuan. Our total designed wastewater treatment capacity for our four plants is expected to reach 500,000 cubic metres by the end of 2020 upon completion of the contemplated expansion works.

As further advised by CIC, for the year ended 31 December 2017, our Group had a market share in terms of actual treatment volume of approximately 43.4% in Ningxia and approximately 78.0% in Yinchuan. Therefore, our Group is the leading and the largest wastewater treatment service provider in Yinchuan and in Ningxia, in terms of both total designed wastewater treatment capacity and actual treatment volume.

The other companies which engage in the wastewater treatment industry in Yinchuan and Ningxia are generally local players which have been granted concession rights from the relevant local government and in our Concession Agreement, each of our Wastewater Treatment Plants enjoys the benefit of a basic volume of wastewater for calculation of service fees. Given the nature of such kinds of concession arrangements with the local governments, the competition among the local players is generally not on the volumes of wastewater available in the region, but more on competing for the concession rights when new project opportunities arise.

For details of the competitive landscape of the industry in which our Group operates, please refer to "Industry Overview — Overview of competitive landscape of wastewater treatment industry in Ningxia and Yinchuan" in this document.

OUR EMPLOYEES

As at the Latest Practicable Date, we had 154 full-time employees. The following table sets out the number of our employees as at the Latest Practicable Date by their functional role:

Functional role	Number of employees
Director and senior management	4
Accounting and finance	7
Human resources and administration	18
Operation	98
Engineering	11
Production and procurement	6
Quality control	10
Total:	154

We recruit our employees on the open market based on various factors such as their work experience, educational background, qualifications or certifications possessed.

To ensure the performance quality of our employees and their health and safety at work place and to familiarise our employees with our quality control systems, we offer relevant in-house training to their job duties to our staff at our wastewater treatment facility. We also encourage and subsidize our employees for attending external industry-related trainings.

The compensation package for our employees generally comprises basic wages, over-time work allowances, bonuses, retirement benefits and other staff benefits. We conduct annual review of the performance of our employees for determining the level of bonus, salary adjustment and promotion of our employees. For the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, our employee benefit expenses were approximately HK$14.8 million, HK$14.9 million, HK$13.8 million and HK$6.3 million, respectively.

TYW has a labour union. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any strikes or other material labour disputes that have materially disrupted our operations. Our Directors believe that we have maintained a good working relationship with our employees.

HEALTH AND SAFETY COMPLIANCE

Pursuant to national and local health and safety laws and regulations in the PRC, we are required to provide our employees with a safe working environment. Therefore, we have established comprehensive work place safety policies and guidelines for our employees. Each of our wastewater treatment facilities maintains its own emergency reporting system in case of safety hazards. Our employees are provided with protective gears and clothing within our wastewater treatment plants. We also conduct regular inspection and maintenance checks on our equipment to ensure that they are in compliance with the applicable national or industrial standards in respect of their design, manufacturing, installation and use.

During the Track Record Period, we recorded one incident of work injury in our facilities. Such incident took place during the year ended 31 December 2016 where one employee of TYW suffered from heart attack while he was playing sports inside the recreational area of our facilities and he passed away. The statutory compensation as a result of such incident was fully covered by the occupational injuries insurance under the social insurance maintained by us for our employees and had been fully settled. In addition to that, we offered RMB150,000 (equivalent to approximately HK$187,500) as gratuity to the deceased's family. Save for the aforesaid incident, during the Track Record Period and up to the Latest Practicable Date, our Group has not recorded any other accidents involving injury to our employees.

During the Track Record Period and up to the Latest Practicable Date, we had complied with the applicable national and local occupational health and safety laws and regulations in all material respects and we had not been imposed any sanctions or penalties for any non-compliance with applicable laws and regulations on health and safety in the PRC.

INSURANCE

In accordance with applicable PRC laws and regulations on social insurance and housing funds, we contribute to social insurance, including pension, medical insurance, unemployment insurance, occupational injuries insurance and childbirth insurance, as well as housing fund for our employees. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group had made social insurance and housing fund contributions for its employees in accordance with the requirements pursuant to the applicable laws and regulations and has not been subject to any penalty, and there has been no outstanding social insurance or housing fund payment.

We have also maintained property all risks insurance, machinery breakdown insurance, employer's liability insurance and public liability insurance for the operation of our Wastewater Treatment Plants. In respect of our construction works for upgrading and expansion, we generally require our suppliers of construction services to purchase the construction-related insurance.

Our Directors consider that as at the Latest Practicable Date the coverage of our existing insurance is sufficient and in line with the industry practice. During the Track Record Period and up to the Latest Practicable Date, no material workers' compensation claims, third party liability claims or accident compensation claims had been brought against us.

ENVIRONMENTAL MATTERS

We are subject to various laws and regulations regarding environment protection and water quality of treated wastewater discharged from our Wastewater Treatment Plants. In carrying out the upgrading and expansion works at our Wastewater Treatment Plants, we are required under the relevant PRC laws to conduct environmental impact assessment and submit the relevant environmental impact assessment report on specific potential impact on the environment by the construction works and the design plan of pollution preventing facilities for approval by the relevant government authorities. In this connection, we will engage a licensed environmental impact assessment consultant to assist us to prepare the environmental impact assessment report prior to our commencement of the construction works for the upgrading and/or expansion of our Wastewater Treatment Plants. For our provision of wastewater treatment services, we have duly obtained a pollutant discharge permit for each of our Wastewater Treatment Plants in accordance with PRC law. As a wastewater treatment service provider and pursuant to the Concession Agreement, we are obliged to ensure the wastewater treated by our facilities meets the relevant discharge standards. For this purpose, we have implemented various quality control measures as detailed in "Maintaining the quality of our services" in this section. For further information on our compliance with such laws and regulations, please refer to the section headed "Regulatory Overview" in this document.

We have implemented measures in the operation of our business to ensure compliance with applicable requirements under the PRC environmental laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not received any claims or penalties for failing to comply with the relevant environmental-related licensing and environmental protection requirements.

RISK MANAGEMENT

We have established a set of comprehensive risk management policies and measures to identify, evaluate and manage risks arising from our operations. Our audit committee oversees the financial controls, internal control procedures and risk management systems of our Group. The head of the internal audit department is responsible for periodically reporting its findings and, where necessary, discusses any issues that may arise with our external legal advisers to help ensure that we are not in breach of relevant regulatory requirements or applicable laws.

We have a prudent treasury policy to manage our investment in financial products. We only invest in low risk financial instruments from reputable commercial banks or financial institutions. Our risk control measures include (i) selection of reputable commercial banks or financial institutions; (ii) selection of financial products with a focus on principal protected feature; and (iii) stringent internal control procedures, such as tiered reporting system and periodic audits. All investment plans are subject to review by general manager or deputy general manager and approval from our chief executive officer.

We are exposed to various risks during our operation. Please see "Risk Factors" in this document for further discussion. We focus on enhancing our internal control and risk management systems. We have implemented various policies and procedures to ensure effective risk management in each aspect of our operations, financial reporting and recording, fund management, and compliance with applicable laws and regulations of Hong Kong and the PRC. Our Board and senior management assume the overall responsibilities for overseeing the implementation of our internal control and risk management procedures and other measures throughout our Group. We have also established an audit committee oversees the financial controls, internal control procedures and risk management systems of our Group. See "Directors and Senior Management" for further information on the composition of the audit committee and the qualification of its members. We will engage and continue to appoint external professional advisers, including auditors, legal or other advisers to render professional advice so as to comply with all the relevant laws and regulations applicable to us.

LEGAL PROCEEDINGS

During the Track Record Period and as at the Latest Practicable Date, our Group was not engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against our Group.

LEGAL NON-COMPLIANCE

Save as disclosed below, the Directors confirm that our Group has complied with the applicable laws, rules and regulations in all material aspects in the relevant jurisdictions in which our Group had business operations during the Track Record Period and up to the Latest Practicable Date.

Particulars of the non-compliance incidents

We commenced operation of Plant 2 and Plant 4 in respect of the upgraded parts at Plant 2 and Plant 4 and the expanded parts under Phase I expansion of Plant 2 (collectively the "**Relevant Parts**") while maintaining the undisrupted wastewater treatment services of the plants before the obtaining the completion acceptance for the completed upgrading works at Plant 2 and Plant 4 and the completed Phase I of Plant 2 expansion works (collectively the "**Relevant Works**").

Reasons for non-compliance

In December 2017, we passed the environmental protection inspection and acceptance in respect of the Relevant Works, while we had not yet obtained the completion acceptance.

Pursuant to the Concession Agreement, we are not allowed to suspend our services unless prior approval of Yinchuan Construction Bureau is obtained. Based on the mutual understanding between Yinchuan Construction Bureau and TYW, we should commence operations of the Relevant Parts as soon as possible after substantial completion of the Relevant Works notwithstanding that the completion acceptance had not yet been obtained at the time, so that our wastewater treatment services would not be disrupted.

As confirmed by Yinchuan Construction Bureau, (i) it was aware of the situation; (ii) the local government authority did not impose a strict requirement as to the passing of completion acceptance; (iii) the plants could commence operations once environment protection acceptance has passed as the quality of effluent has met the relevant standard; and (iv) it had not imposed and will not impose any penalty against TYW.

Legal consequences and potential maximum penalty

According to the Administrative Regulation of Construction Work Quality* (《建設工程質量管理條例》), where a construction entity illegally delivers the construction project for use without obtaining the completion acceptance checks or in circumstances where it failed to pass the completion acceptance checks, it shall be ordered to make corrections and pay a fine of not less than 2% but not more than 4% of the contractual project price, and shall be obliged to pay compensation if any losses have been caused.

Based on the total contractual project price of the relevant projects, the maximum fine amounts to approximately RMB5.5 million (equivalent to approximately HK$6.9 million).

Remedial actions taken

We have obtained a written confirmation dated 10 April 2018 from Yinchuan Construction Bureau that the construction of the Relevant Works were in line with Yinchuan Construction Bureau's planning and that the quality of the construction complied with the relevant laws and regulations and safety standard. Yinchuan Construction Bureau also confirmed that TYW had the right to continue to use the plants and facilities in the current manner and purposes.

In addition, based on the interview with the director of the public services division (公用事業科科長) of Yinchuan Construction Bureau on 12 March 2018, it was confirmed that (i) Yinchuan Construction Bureau was aware of the commencement of operation of the Relevant Parts without obtaining the completion acceptance; and (ii) it had not imposed and would not impose any penalty against TYW.

Our PRC Legal Adviser is of the view that (i) the aforesaid local government authority and aforesaid officer are the competent authority to issue the confirmation and conduct the interview; and (ii) the risk of penalty was remote.

As at the Latest Practicable Date, the Relevant Works for Plant 2 and Plant 4 have completed the completion acceptance.

Based on the above, our Directors are of the view that the possibility that a penalty may be imposed on our Group is remote, hence no provision has been made in our combined financial statements.

INTERNAL CONTROL

Our Group implemented the following measures to prevent the liability and the disruption of business operation in the event of re-occurrence of non-compliance incidents such as those disclosed above. Having considered the implementation of the enhanced internal control measures below, our Directors are of the opinion, and the Sponsor concurs that, as of the Latest Practicable Date, our internal control measures below were adequate and effective, in all material respects to prevent the re-occurrence of non-compliance incidents:

1. Based on the internal control systems established and maintained by our Group and the review conducted by an independent internal control adviser, no material defects or failures in the internal control systems of our Company have been identified;

2. Our Group will only undertake new project, upgrading and expansion work upon approval by our senior management. The senior management will be responsible to ensure completion of necessary formalities and obtaining necessary certificates, permits, approvals and/or government's consent in a timely manner;

3. The relevant heads of operation and administrative departments, led by Mr. Wong Kok Sun (an executive Director and chief executive officer of our Group), are primarily responsible for maintaining effective communication with the local governmental authorities to facilitate the application for various certificates, permits, approvals and/or government's consent, and monitoring the progress regarding such application and communication with the local government authorities;

4. Trainings in respect of the requirements for obtaining the relevant approvals and certificates were provided by our PRC Legal Adviser to our senior management;

5. We will engage external PRC legal adviser to provide assistance in respect of any legal and compliance matters relating to our operations, where necessary;

6. With respect to new projects to be acquired by our Group, our Company will use its best endeavors to negotiate with its counterparties to, where necessary and practical, obtain relevant certificates prior to completion of the proposed takeovers or require additional indemnities in this respect; and

7. The audit committee will regularly review the internal control and risk management systems and measures of our Company.

Deed of Indemnity

On 4 October 2018, Mr. CM Lim, Mr. CS Lim, LGB (Malaysia), LGB (HK) and Sparkle Century entered into the Deed of Indemnity with our Company to provide indemnities in favour of our Group, among others, relating to any penalties and other losses resulting from the non-compliances.

Views of our Directors and the Sponsor

Considering that (i) the facts and circumstances of the above non-compliance; (ii) the various written confirmation from and interview of the government authority; (iii) the Deed of Indemnity in favour of our Group; (iv) the enhanced internal control measures we have implemented; (v) training provided to our senior management in respect of the requirements for obtaining the relevant approvals and certificates; (vi) occurrence of the historical non-compliance incidents above was not due to dishonesty or fraudulence of our Directors nor did any of these incidents raise any concern on the integrity of our Directors; and (vii) none of the historical non-compliance incidents above has any material impact on the results of our business operations or financial position, our Directors are of the view, and the Sponsor concurs, that such non-compliance incident would not affect the suitability of our Directors to act as directors of our Company under Rules 3.08 and 3.09 of the Listing Rules or suitability for [REDACTED] of our Company under Rule 8.04 of the Listing Rules.

OUR PROPERTIES

Properties occupied by our Group under the Concession Agreement

We occupied four parcels of land pursuant to the Concession Agreement with an aggregate gross site area of 413,961.06 square meters. All these parcels of land occupied by us for our operations of the Wastewater Treatment Plants are awarded to us as allocated lands by the relevant local governmental authorities for the term under the Concession Agreement and we have been granted the relevant land use right certificates giving us the exclusive right to use and occupy our facilities during the concession period. According to the Concession Agreement, TYW is required to surrender all these land use rights to the local government or its designee at nil consideration upon the expiry of the concession period.

Under the TOT project model, we obtained already-built buildings and structures within the Wastewater Treatment Plants pursuant to the Concession Agreement and the TOT Transfer Agreement. For our upgrading and expansion works carried out at our wastewater treatment facilities, we are generally required to apply for various certificates and permits that we need in order to commence physical construction of the upgrading and expansion works, which are set forth below:

- Environmental impact assessment approval — in connection with a construction project, an environmental impact report on specific potential impact on the environment and design plan of pollution prevent facilities as approved by the government;
- Construction land use planning permit* (建設用地規劃許可證) — a permit authorising an entity to begin the survey, planning and design of a parcel of land;
- Land use rights certificate* (國有土地使用證) — a certification of the right of a party to use a parcel of land;
- Construction planning permit* (建設工程規劃許可證) — a certificate indicating government approval for an entity's overall planning and design of the project; and
- Construction work commencement permit* (建築工程施工許可證) — a permit required for the commencement of construction.

As confirmed by our Directors, we have duly obtained all the above-mentioned certificates and permits before we commenced the physical construction of our contemplated upgrading and expansion works.

Properties leased by us

As at the Latest Practicable Date, our Group companies leased five properties from Independent Third Parties with their details and lease terms set out below:

Lessee	Location	Actual use	Area *(in square metres)*	Rent	Lease term
TYW	Room 702, Block 4, Jin Feng District Commercial and Residential Complex, Yinchuan, Ningxia, the PRC	Residential	129.32	RMB3,500.0 per month (equivalent to approximately HK$4,375.0 per month)	One year from 15 July 2018 to 14 July 2019
TYW	11#-3-Room 702, Jin Hai Ming Yue Garden, Yun Jia Qu North Street, Jin Feng District, Yinchuan, Ningxia, the PRC	Residential	142.87	RMB3,900 per month (equivalent to HK$4,875.0 per month)	One year from 10 June 2018 to 9 June 2019
TYW	Room A2-2118, Yue Hai Xin Tian Di, Jin Feng District, Yinchuan, Ningxia, the PRC	Residential	43.06	RMB14,000.0 per year (equivalent to approximately HK$17,500.0 per year)	36 months from 1 November 2017 to 31 October 2020
TSH	Unit 53, 5th Floor, Land Lot No. 016, Area D13, No. 39 Jiatai Road, China (Shanghai) Pilot Free Trade Zone, Shanghai, the PRC	Storage	20	RMB20,000.0 per year (equivalent to approximately HK$25,000.0 per year)	From 1 July 2018 to 30 June 2019
TSET	Room B-301, Block 10(B), No. 808 Hong Qiao Road, Shanghai, the PRC	Office	217	RMB24,226.0 per month (equivalent to approximately HK$30,282.5 per month)	1 May 2018 to 30 April 2019

In respect of our two leased properties in Shanghai with one being used as our office and one for storage purpose, we have not been provided by the lessors with the relevant building ownership certificates or relevant consent from interested parties for us to use such properties. As a result, it is possible that the relevant leased agreements may be deemed invalid and in such event we may be compelled to vacate from the properties, in which event we may incur relocation costs and incur higher rental expenses after relocation.

In addition, for each of our five leased properties mentioned above, the relevant lease agreements were not registered with relevant PRC government authorities. Our PRC Legal Adviser has advised us that we may be required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 (equivalent to approximately HK$1,250) to RMB10,000 (equivalent to approximately HK$12,500) for each non-registered lease.

Notwithstanding the above, our Directors are of the view that, (i) in the event that the relevant building ownership certificates in respect of the aforesaid leased properties have not been obtained and we are compelled to relocate from the relevant leased properties, we do not foresee any difficulties in relocation and any material adverse impact on our operations; and (ii) in the event that we are fined for not having the leased agreements registered with the relevant PRC government authorities, in view of the fact that the total maximum amount of fines is only RMB50,000 (equivalent to approximately HK$62,500), such incidents will not have any material adverse impact on our operations.

During the Track Record Period, we did not experience any difficulty in renewing the leases.

These properties leased by our Group are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our offices and staff quarters in the PRC. According to Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our Group's property interests, for the reason that, as of 31 December 2017, none of our property interests have a carrying amount of 15% or more of our combined total assets. Pursuant to Chapter 5 of the Listing Rules, this document is not required to include valuations of our leased properties.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we did not have any registered trademarks or any trademarks pending in Hong Kong. We have registered one domain name, which is used by our Group.

As at the Latest Practicable Date, we have not received any material claim against us for infringement of any trademark nor were we aware of any pending or threatened claims in relation to any such infringement, nor had any material claim been made by us against third parties in relation to the infringement of intellectual property rights owned by us or third parties.

Please refer to the section headed "B. Further Information about our Business — Intellectual property rights" in Appendix IV to this document for further details of the registration of the domain name.

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), Sparkle Century, will directly hold [REDACTED]% of the issued share capital of our Company. As at the Latest Practicable Date, Sparkle Century was wholly-owned by LGB (HK), which was in turn owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, respectively. During the Track Record Period and up to the Latest Practicable Date, LGB (Malaysia) was owned as to 30.40%, 30.40%, 10.43%, 10.43%, 10.43%, 5.41% and 2.50% by Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling, respectively. LGB (Malaysia), Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan, Ms. Lim Wang Ling, LGB (HK) and Sparkle Century will together form a group of Controlling Shareholders within the meaning of Listing Rules.

Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling and Ms. Lim Wang Ling are siblings. Ms. Geh Sok Lan is their mother. The family business of our Controlling Shareholders cover a number of industry sectors, such as (i) potable water treatment, supply and distribution; (ii) toll highway concession and operation and maintenance in Malaysia conducted through Taliworks Corporation Berhad; (iii) solid waste management related business in Malaysia; and (iv) property development and investment in Malaysia, the United Kingdom and Japan, etc. (collectively the "**LGB Group**").

Pursuant to the Concert Party Deed, Mr. CM Lim and Mr. CS Lim have been parties acting in concert (having the meaning ascribed to it under the Takeovers Code) during the Track Record Period and in the course of the Reorganisation and will continue to be parties acting in concert (having the meaning ascribed to it under the Takeovers Code) until such arrangement is terminated in writing by them pursuant to the Concert Party Deed. Pursuant to the Concert Party Deed, each of Mr. CM Lim and Mr. CS Lim confirmed that, among other things, (i) since 1 January 2014: (a) they had acted in concert and collectively for all material management affairs and the arrival and/or execution of all commercial decisions, including but not limited to financial and operational matters, of TIL, TEL, TYW, TSET, TSH, Tilgea Consortium, TECO and NEW; (b) they had given unanimous consent, approval or rejection on any other material issues and decisions in relation to the business of TIL, TEL, TYW, TSET, TSH, Tilgea Consortium, TECO and NEW; (c) they had casted their votes collectively for or against all resolutions in all board and shareholders' meetings and discussions of TIL, TEL, TYW, TSET, TSH, Tilgea Consortium, TECO and NEW; and (d) they had cooperated with each other to obtain and maintain and consolidate control of TIL, TEL, TYW, TSET, TSH, Tilgea Consortium, TECO and NEW; and (ii) in the course of the Reorganisation and until the date of any written termination by them, (a) they have acted and shall continue to act in concert and collectively for all material management affairs and the arrival and/or execution of all commercial decisions including but not limited to financial and operational matters, of the Group; (b) they have given and shall continue to give unanimous consent, approval or rejection on any other material issues and decisions in relation to the business of the Group; (c) they have casted and shall continue to cast unanimous votes collectively for or against all resolutions in all board and shareholders' meetings and discussions of the Group; and (d) they have cooperated and shall continue to cooperate with each other to obtain and maintain and consolidate control of the Group.

Mr. CM Lim decided to focus on his other business engagement and decided not to act as a Director, as it would involve substantial time for participation in our Board and Board committee meetings and other duties under the Listing Rules.

Mr. CM Lim was a director of the following companies which were incorporated in Hong Kong and Malaysia when they were dissolved or are in the process of dissolution other than by member's voluntary winding-up.

Name of Company	Nature of Business	Means of dissolution	Date of commencement of winding-up procedure/notice of deregistration/notice of striking off	Date of dissolution	Reasons for dissolution
Famous Classic Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	19 May 2011	30 November 2011	No business operation
LGB Construction Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	5 January 2011	30 September 2011	No business operation
TIBI	Inactive	Winding-up by court on just and equitable grounds	24 August 2011	In the process of liquidation	Cessation of business
Taliworks-IBI Technologies (Xiamen) Limited	Inactive	Dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	24 February 2012	14 September 2012	Cessation of business

Mr. CM Lim confirmed that, to the best of his knowledge, the above dissolved companies were solvent and inactive immediately prior to their dissolutions, and that there is no wrongful act on his part leading to their dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of their dissolution.

Mr. CM Lim was a non-independent non-executive director of Central Industrial Corporation Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad (stock code: 8052) from 4 September 2001 to 16 June 2015. Save as disclosed above, he has not held any directorship in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas. Mr. CM Lim is also a director of TIL and TSH.

Mr. CM Lim is the brother of Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling and Ms. Lim Wang Ling, and the son of Ms. Geh Sok Lan. His shareholding interest in our Company is disclosed in the section headed "Substantial Shareholders" in this document.

Save as disclosed above, there is no further matter of Mr. CM Lim which requires disclosure under 13.51(2) if he acts as a Director of our Company.

EXCLUDED BUSINESSES

As at the Latest Practicable Date, our Group principally engaged in wastewater treatment business in Yinchuan, Ningxia, the PRC. For further details of our principal business, please see the section "Business" of this document. Apart from our business, our Controlling Shareholders and their close associates are interested in certain companies which (i) owns the concession rights as to the wastewater treatment plant in Coal-to-Chemical Industrial Park of Ningdong Energy Chemical Base* (寧東能源化工基地煤化工業園區), Ningxia, the PRC; and (ii) operates the wastewater treatment plant in Guanghan City, Sichuan Province, the PRC, which will not form part of our Group after [REDACTED] (the business of the above companies are collectively referred to as the "**Excluded Businesses**").

Save as the Excluded Businesses as disclosed in this document, each of our Controlling Shareholders confirms that he or she or it and their respective close associates do not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

Wastewater treatment business of TECO and NEW

TECO is a limited company incorporated in Singapore on 4 March 2008. Prior to the Reorganisation, TECO was owned as to 70% by TIL and 30% by an Independent Third Party. On 11 April 2018, LGB (HK) (which was in turn owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, respectively) acquired 100% equity interest of TECO from TIL and the Independent Third Party. TECO is a wholly-owned subsidiary of LGB (HK).

TECO and Yinchuan Ningdong Energy and Chemical Base Management Committee* (銀川市寧東能源化工基地管理委員會) entered into a concession agreement dated 27 September 2009 (the "**TECO Concession Agreement**"), pursuant to which, TECO (or the project company established by TECO) has been granted for a 30-year period (commencing from the passing of the environmental inspection and acceptance) a concession to finance, design, build, own, operate and maintain a wastewater and recycled water treatment plant in certain areas in Coal-to-Chemical Industrial Park of Ningdong Energy Chemical Base* (寧東能源化工基地煤化工業園區), Ningxia, the PRC on a BOT basis.

NEW (a limited liability company established in the PRC on 17 June 2010 and wholly-owned by TECO) was the project company established by TECO for the above purpose of construction and operation of the wastewater and recycled water treatment plant.

Although construction on the first phase of the facility commenced in 2011, the construction has been halted since November 2012 as the volume of influent did not meet the quantity as expected based on the feasibility study conducted before commencement of the project. The shortfall was primarily due to the development progress of projects in the industrial park was slower than originally expected and the number of enterprises in the industrial park which had commenced operation at that time was less

than originally expected, which resulted in the volume of wastewater generated by such enterprises was lower than expectation. As a result, it was considered that the situation would persist and that there would be insufficient volume of influent for the plant to generate sufficient of revenue to sustain its business operation. Due to the above reasons, it was considered that the project ceased to be viable and NEW began discussions with Yinchuan Ningdong Energy and Chemical Base Management Committee* (銀川市寧東能源化工基地管理委員會) to transfer the plant back to the government. The facilities were already successfully handed over to the government authority and the parties are in discussion on the termination fee to be paid by the government for termination of the TECO Concession Agreement. Given the above situation, NEW has ceased operation. The discussion is in progress. It is expected once the discussion has been finalised, TECO and NEW will be liquidated according to the relevant administrative procedures. Accordingly, our Directors are of the view that the business of NEW and our Group can be clearly delineated and there is no competition. To the best knowledge of our Directors, TECO and NEW had not committed any material non-compliance during the Track Record Period.

Wastewater treatment business of TSL and PGW

TSL was incorporated in Hong Kong with limited liability on 10 January 2007. Prior to May 2016, TSL was owned as to 80% and 20% by Taliworks Corporation Berhad and Ambleton Limited, respectively. As at the Latest Practicable Date, TSL was owned as to 80% by LGB (HK) (which was in turn owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, respectively), and 20% by Ambleton Limited (which was in turn owned as to 50% and 50% by Mr. Wong Kok Sun (our executive Director and chief executive officer) and an Independent Third Party, respectively), respectively.

PGW is a limited liability company established in the PRC on 19 August 2003. On 1 December 2006, PGW and Guanghan City Planning and Construction Bureau* (廣漢市規劃和建設局) entered into a concession agreement (as supplemented and amended) (the "**PGW Concession Agreement**"), pursuant to which, PGW has been granted exclusive right for a period commencing on 1 December 2006 and expiring on 31 July 2033 to build, operate and maintain the wastewater treatment plant in Guanghan City, Sichuan Province, the PRC on a BOT basis. In April 2007, TSL (when it was owned as to 80% by Taliworks Corporation Berhad) acquired the 70% equity interest of PGW from one of its then shareholders which is an Independent Third Party. At the time of the acquisition, the plant was only partially constructed. Taliworks Corporation Berhad and TSL had to provide additional capital and management resources in order to continue with the construction based on the PGW Concession Agreement. As at the Latest Practicable Date, PGW is currently owned as to 70% by TSL and 30% by an Independent Third Party, respectively.

Notwithstanding that PGW also engages in wastewater treatment business in the PRC, our Directors are of the view that it is not in the interest of our Group to include PGW and that there is no competition between the business of PGW and our principal business primarily due to the following reasons:

(a) Status of PGW — Since the acquisition of PGW by Taliworks Corporation Berhad through TSL in 2007, PGW continued with the construction and operation of the wastewater treatment plant pursuant to the PGW Concession Agreement. Based on the assessment and as confirmed by Guanghan City Planning and Construction Bureau, PGW was able to meet the then relevant effluent discharge standard in July 2007. Since then, PGW was in the process of

obtaining the relevant confirmation of construction completion (which was yet to be obtained due to various technical issues such as updating and resubmitting the design plan). At the time of acquisition by TSL, the design plans and other documents of PGW handed over by the previous majority shareholder of PGW who was managing the construction were incomplete and not sufficient to obtain the confirmation and approval, hence it took time to work with professional consultant to carry out inspection and to re-work on the design plan and other documentation works in order to obtain the relevant confirmation and approval which was still in progress as at the Latest Practicable Date. In 2015, it was discovered that pollutant level of the influent into PGW's wastewater treatment plant exceeded the relevant pollutant and chemical standard set out in the PGW Concession Agreement. Such situation was primarily due to inflow of industrial wastewater from pipelines into PGW's wastewater treatment plant (which was designed to process domestic sewage based on the approved treatment plant design).

In order to ensure that the effluent discharge standard under the PGW Concession Agreement could be met, PGW had to adjust the water treatment process whereas higher dosage of chemicals was required. Such adjustments resulted in more backwash were required for the wastewater treatment plant, and accordingly affected the daily capacity of the wastewater treatment plant. In addition, PGW was in discussion with the government authority to upgrade the effluent discharge standards. With a view to resolving the above issues and to maintaining PGW's daily capacity, PGW and Guanghan City Planning and Construction Bureau began the negotiation in order to resolve the above problems (including upgrade and expansion and/or construction of additional treatment plant(s), etc.). Since the negotiation is in process, it is unclear how the parties may come to a consensus. It is expected that a substantial amount of investment to expand or construct additional wastewater treatment plants may be required. PGW will have to review from commercial and technical perspective before deciding to continue to invest and participate in this project or not.

Given the above uncertainty, our Directors are of the view that it is not in the interest of our Group to include PGW into our Group at this stage. Our Group would retain the flexibility to acquire assets or businesses at a later stage (after it has passed the completion acceptance and environmental protection acceptance or such similar inspection, approval, license, permit and acceptance for all of its then facilities (the "**Completion of Acceptance and Inspection**"). In the event that our Company is of the view that the business prospects of PGW becomes viable from a strategic, financial or other perspective in future, we may exercise the options as discussed below to acquire the equity interest of PGW.

(b) Different geographical locations — During the Track Record Period, the wastewater treatment business of our Group was conducted in Yinchuan, while the wastewater treatment business operated by PGW is restricted in Guanghan City, Sichuan Province, the PRC. The Concession Agreement provides exclusive rights for us to manage and operate the Wastewater Treatment Plants. Similarly, it is expected that TSL and PGW cannot conduct wastewater treatment business in other areas without the concession rights from the local government authorities. Hence, TSL and PGW cannot conduct water treatment business in such areas which are covered by Concession Agreement at present or in future.

(c) Different staff and personnel — Our Group and PGW have different operational personnel and staff, and have separate and independent management teams for their respective daily management and operation.

Pursuant to the Deed of Non-competition (as further discussed below), we have (i) the option to request our Controlling Shareholders to transfer their equity interest in TSL and PGW to our Group, upon PGW has passed Completion of Acceptance and Inspection; and (ii) the right of first offer to acquire their equity interest in TSL and PGW. Hence, our Group will have the flexibility to include such wastewater treatment business into our Group based on the above conditions and when we consider it is in our commercial interest. Please refer to the paragraph headed "Relationship with Controlling Shareholders — Non-competition Undertaking" below for further details.

In addition, our Controlling Shareholders have undertaken that they will not operate other PRC wastewater treatment business in areas outside Guanghan City, Sichuan Province, hence there is no direct competition in terms of geographical locations of the business of our Group and TSL and PGW.

INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, our Controlling Shareholders, their respective close associates or any other parties, taking into account the following factors:

(i) Financial Independence

Our Company has an independent financial system and makes financial decisions according to our Group's own business needs. Our Group has sufficient capital to operate its business independently, and has adequate internal resources and credit profile to support our daily operations.

During the Track Record Period, our Group had certain amounts due to and due from related parties including our Controlling Shareholders and their associates. For details, please refer to sections headed "Financial Information — Amounts due from fellow subsidiaries" and "Financial Information — Amounts due to related parties" and note 30 to the Accountant's Report set out in Appendix I to this document. Such respective amounts due to/from related parties have been or will be either settled, capitalised or waived upon [REDACTED].

Our Directors are of the view that there has been sufficient cash flow to support the operation of our Group's business. For the three years ended 31 December 2017 and the four months ended 30 April 2018, our Group has relied principally on cash generated from operations and bank borrowings to carry on our businesses and this is expected to continue after the [REDACTED]. Our Directors also believe that our Group is capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders after the [REDACTED]. Therefore, the Group will be financially independent from our Controlling Shareholders after the [REDACTED].

(ii) Operational Independence

During the Track Record Period, our Group provided certain management services to TSEL and received consultancy from Taliworks Corporation Berhad. For the three years ended 31 December 2017 and the four months ended 30 April 2018, management fees recorded by our Group amounted to approximately HK$1.1 million, HK$1.1 million, HK$1.1 million and HK$750,000, respectively. Our Group ceased to provide these services to them in April 2018. For the three years ended 31 December 2017 and the four months ended 30 April 2018, the consultancy fees paid by our Group amounted to approximately HK$635,000, HK$393,000, nil and nil, respectively. The consultancy services were mainly related to legal and support services, and was ceased in 2016 following the transfer of equity interest of TIL from Taliworks Corporation Berhad to LGB (HK).

On the basis of the following reasons, our Directors consider that our Group will continue to be operationally independent from our Controlling Shareholders or other companies controlled by our Controlling Shareholders:

(a) our Group has established its own organisational structure made of individual departments, each with specific areas of responsibilities;

(b) our Group did not share its operational resources, such as customers, suppliers, marketing, sales and general administration resources (saved as the services disclosed above) with our Controlling Shareholders and/or their close associates during the Track Record Period;

(c) our Group has also established a set of internal control measures to facilitate the effective operation of its business;

(d) our Group does not rely on our Controlling Shareholders or their close associates and has its independent access to customers and suppliers; and

(e) our Group is the holder of all relevant qualifications, licences and permits material to the operation of the business and has sufficient capital, equipment and employees to operate the business independently.

(iii) Management Independence

Our management and operational decisions are made by our Board and senior management. Our Board consists of five Directors, comprising one non-executive Director, one executive Director and three independent non-executive Directors. Mr. CS Lim (our chairman and non-executive Director and one of our Controlling Shareholders) and Mr. CM Lim (one of our Controlling Shareholders), and Ms. Lim Ai Ling (one of our Controlling Shareholders) are also directors of LGB (Malaysia), LGB (HK) and/or Sparkle Century. Mr. CS Lim is also a non-independent non-executive director of Taliworks Corporation Berhad, and that Mr. CS Lim, Mr. CM Lim and Ms. Lim Ai Ling are also engaged in their family businesses and other businesses (which do not directly or indirectly compete with the business of our Group).

On the basis of the following reasons, our Directors consider that our Group are able to manage the business independently from the Controlling Shareholders:

(a) with three independent non-executive Directors out of a total five Directors in the Board, which complies with the requirements under the Listing Rules to counterbalance any situation involving a conflict of interest and protect the interests of the independent Shareholders;

(b) all members of the senior management are full-time employees of our Group and most have, during the entire or most of the Track Record Period, undertaken senior management responsibilities in the business. The responsibilities of the senior management team include managing operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategies of the Group. This ensures the independence of the daily management and operations of our Group from those of our Controlling Shareholders;

(c) each of our Directors is aware of his fiduciary duties as a Director, which require, among other things, that he acts for the benefit and in the interests of our Shareholders and our Company as a whole and does not allow any conflict between his duties as a Director and his personal interests to affect the performance of his duties as a Director;

(d) connected transactions (if any) between our Company and companies controlled by our Controlling Shareholders are subject to the rules and regulations under the Listing Rules including rules relating to announcement, reporting and independent Shareholders' approval requirements (where applicable); and

(e) a number of corporate governance measures is in place to avoid any potential conflict of interest between our Company and our Controlling Shareholders, and to safeguard the interests of the independent Shareholders.

Having considered the aforesaid factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Group is capable of managing its business independently from our Controlling Shareholders and their respective close associates.

(iv) Independence of major suppliers

Our Directors confirm that none of our Controlling Shareholders, our Directors and their respective close associates, have any relationship with the five largest suppliers of our Group during the Track Record Period.

(v) Independence of major customers

Our Directors confirm that none of our Controlling Shareholders, our Directors and their respective close associates, have any relationship with the five largest customers of our Group during the Track Record Period.

RULE 8.10 OF THE LISTING RULES

Save as otherwise disclosed in this document, our Controlling Shareholders, our Directors and their respective close associates do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKINGS

In order to avoid any possible future competition between our Group and our Controlling Shareholders, each of LGB (Malaysia), Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan, Ms. Lim Wang Ling, LGB (HK) and Sparkle Century (each a "**Covenantor**" and collectively the "**Covenantors**") has executed a Deed of Non-competition on 4 October 2018 in favour of our Company and its subsidiaries. Pursuant to the Deed of Non-Competition, each of the Covenantors has irrevocably and unconditionally undertaken to our Company (for itself and for the benefit of its subsidiaries) that, during the period that the Deed of Non-Competition remain effective, he/she/it shall not, and shall procure that his/her/its close associates (other than any member of our Group) not to, directly or indirectly, develop, acquire, participate in, hold any right or interest or invest in or engage in, render any services for or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group (excluding the Excluded Businesses), save for the holding of not more than 5% shareholding interests (individually or with his/her/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with his/its close associates).

Each of the Covenantors further undertakes that if he/she/it or his/her/its close associates (other than any member of our Group) is offered or becomes aware of any business opportunity which may compete with the business of our Group, he/she/it shall (and he/she/it shall procure his/her/its close associates to) promptly notify our Company in writing and our Company shall have a right of first refusal to take up such business opportunity. Our Company shall, within 30 days after receipt of the written notice (or such longer period if our Company is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantors whether our Company will exercise the right of first refusal or not.

Our Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantors and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The relevant Covenantor shall be entitled but not obliged to pursue the business opportunity on terms no more favourable than those offered to the Group if he/it has received a notice from the Group declining such business opportunity or if the Group fails to respond within the above-mentioned 30-day period.

Additional rights and obligations in relation to TSL and PGW

Controlling Shareholders not to operate PRC wastewater treatment business outside Guanghan City, Sichuan Province, the PRC — While our Controlling Shareholders may still engage in wastewater treatment business in Guanghan City, they have undertaken that (after termination of the TECO Concession Agreement), they will not operate other PRC wastewater treatment business in areas outside Guanghan City, Sichuan Province, the PRC and they will not enter into other concession agreement for wastewater treatment businesses with the PRC government authorities or otherwise.

Right of First Offer — Our Controlling Shareholders have undertaken that, during the term of the Deed of Non-competition, if the Controlling Shareholder intends to transfer, sell, lease, license or otherwise dispose of the equity interest of TSL and PGW, to any third parties, the Controlling Shareholder shall immediately notify our Company in writing of its intention (the "**Selling Notice**") and procure all necessary information to facilitate an investment decision be made available to our Company. Our Board (based on the opinion of our independent non-executive Directors) will decide whether or not to acquire such equity interest of TSL and PGW. Subject to the relevant reporting, announcement and independent shareholders' approval requirements under the Listing Rules for connected transactions, our Company will notify the Controlling Shareholder in writing within 90 Business Days from the date of the Selling Notice whether we wish to acquire the relevant equity interest of TSL and PGW. Our Controlling Shareholders and their associate shall abstain from voting at the Board or Shareholders' meeting of our Company on this matter. Before we provide our written reply within the requisite timeframe, our Controlling Shareholders shall not transfer, sell, lease, license or otherwise dispose of the relevant equity interest of TSL and PGW to any third party. If we decide not to or fail to reply within the requisite timeframe, the Controlling Shareholder may transfer, sell, lend or license the relevant equity interest of TSL and PGW to any third party on terms no more favourable than those stated in the Selling Notice. If we decide not to accept the terms and conditions stated in the Selling Notice, we are entitled to propose our terms to the Controlling Shareholder. If the Controlling Shareholder does not accept the terms we proposed, the Controlling Shareholder can proceed to transfer, sell, lease, license or otherwise dispose of the relevant equity interest of TSL and PGW to any third party on terms no more favourable than those stated in the Selling Notice.

Option upon Completion of Acceptance and Inspection — Our Controlling Shareholders have undertaken that, during the term of the Deed of Non-competition, should PGW be able to pass the Completion of Acceptance and Inspection as discussed above, our Controlling Shareholders shall immediately notify our Company and provide all relevant information of TSL and PGW (the "**Completion of Acceptance and Inspection Notice**") and use their best efforts to procure the equity interest of TSL and PGW be made available to our Company or our subsidiaries on fair and reasonable terms and conditions. Subject to the relevant reporting, announcement and independent shareholders' approval requirements under the Listing Rules for connected transactions, our Company shall have the right to negotiate with our Controlling Shareholders the terms and conditions on arm's length basis and the consideration will be determined with reference to the appraised value by an independent valuer. The Board, including the independent non-executive Directors, will be responsible for reviewing such terms and conditions, and will consider and decide whether such terms and conditions are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and whether to acquire the equity interest of TSL and PGW on such terms and conditions. Our Company shall have the right to exercise the above option at any time until the earlier of (i) termination of the Deed of Non-competition and (ii) our Controlling Shareholders having disposed the relevant equity interest of TSL and PGW to any

third party after the procedures set out in the section headed "— Right of First Offer" above have been completed. Our Controlling Shareholders and their associates shall abstain from voting at the Board or Shareholders' meeting of our Company on this matter. Our Company has the right to choose to acquire the equity interest of TSL and PGW, or choose to conduct entrusted operation, contracting operation, or lease the assets or business of TSL and PGW from our Controlling Shareholders in accordance with PRC laws.

Our Company will adopt the following procedures to monitor that the Deed of Non-competition is being observed:

(a) the independent non-executive Directors shall review on an annual basis the above undertakings from the Covenantors and to evaluate the effective implementation of the Deed of Non-competition;

(b) each of the Covenantors undertakes to provide any information as is reasonably required by the Group or the independent non-executive Directors, for their annual review, including but not limited to the confirmation from the Covenantors on the compliance of the Deed of Non-competition by the Covenantors and each of their close associates; and

(c) our Company shall disclose the decisions on those matters reviewed by its independent non-executive Directors relating to the compliance of the Deed of Non-competition in the annual report of our Company.

The undertakings contained in the Deed of Non-competition are conditional upon the [REDACTED] granting approval for the [REDACTED] the Shares on the Stock Exchange and all conditions precedent under the [REDACTED] having been fulfilled (or where applicable, waived) and the [REDACTED] not having been terminated in accordance with its terms. If any such condition is not fulfilled on or before the date specified in the [REDACTED] (unless such conditions are waived on or before such date) or in any event on or before the date falling 30 days after the date of this document, the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate on the date on which: (i) the Covenantors and their close associates, when taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company provided that the Deed of Non-competition shall continue to be in full force and effect as against the other Covenantors; or (ii) the Shares cease to be listed and traded on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange due to any reason).

As our Controlling Shareholders have given non-competition undertakings in favour of our Company, and (save as disclosed in this document) other than members of our Group, none of them have interests in other businesses that compete or are likely to compete with the business of our Group, our Directors are of the view that our Group is capable of carrying on the business independently of our Controlling Shareholders following the [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

(a) the Covenantors will make an annual confirmation as to compliance with his/her/its undertaking under the Deed of Non-Competition for inclusion in the annual report of our Company;

(b) our Board would include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on our Board which can effectively exercise independent judgment. Our Company has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide impartial and professional advice to protect the interests of the minority Shareholders. Details of our independent non-executive Directors are set out in the section headed "Directors and Senior Management" in this document;

(c) our Company has appointed Red Sun Capital Limited as our compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and internal controls. Please refer to the section headed "Directors and Senior Management — Compliance Adviser" in this document for further details in relation to the appointment of compliance adviser;

(d) our Controlling Shareholders undertake to provide all information requested by our Group which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition; and

(e) our independent non-executive Directors will, based on the information available to them, review on an annual basis (a) the compliance with the Deed of Non-Competition; and (b) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-Competition. Findings of such review will be disclosed in our annual report after the [REDACTED].

BOARD OF DIRECTORS

Our Board currently consists of five Directors, comprising one non-executive Director, one executive Director and three independent non-executive Directors. The following table sets forth the information concerning our Directors:

Members of our Board

Name	Age	Date of joining our Group	Date of appointment as Director	Position(s)	Role and Responsibilities	Relationship with other Directors and senior management
Mr. Lim Chin Sean	37	May 2011	17 April 2018	Chairman and non-executive Director	Strategic development and providing advice on the operation and management	Nil
Mr. Wong Kok Sun	46	May 2012	11 May 2018	Executive Director and chief executive officer	Overall strategic planning and supervising daily operation of our Group	Nil
Mr. Tan Yee Boon (陳于文)	43	4 October 2018	4 October 2018	Independent Non-executive Director	Supervising and providing independent judgement to our Board	Nil
Mr. Hew Lee Lam Sang	54	4 October 2018	4 October 2018	Independent Non-executive Director	Supervising and providing independent judgement to our Board	Nil
Mr. Tam Ka Hei Raymond (譚家熙)	38	4 October 2018	4 October 2018	Independent Non-executive Director	Supervising and providing independent judgement to our Board	Nil

Chairman and non-executive Director

Mr. Lim Chin Sean, aged 37, was appointed as a Director on 17 April 2018, and re-designated as the chairman of the Board and a non-executive Director on 11 May 2018. He is also a director of various subsidiaries of our Group. Mr. CS Lim is responsible for the strategic development and providing advice on the operations and management of our Group. He is also a director of various subsidiaries of our Group.

Mr. CS Lim has been appointed as a non-independent non-executive director of Taliworks Corporation Berhad (which is listed on the Main Market of Bursa Malaysia Securities Berhad) (stock code: 8524) since 23 May 2011. Mr. CS Lim together with Mr. CM Lim (and their other family members) are the controlling shareholders of Taliworks Corporation Berhad (which previously owned the equity interest of the operating subsidiaries of our Group prior to its disposal of the entire interest in our Group in May 2016). For details, please see the section headed "Relationship with Controlling Shareholders" in this document.

Mr. CS Lim joined LGB Group in Malaysia from September 2003. His work experience includes construction and engineering, business analyst, information technology and property development in LGB Group in Malaysia. He is responsible for merger and acquisition activities. Mr. CS Lim has worked in several IT companies and was instrumental in setting up various business including data centre, network infrastructure and business applications, etc. He is also a board member of several property companies, and his role includes daily operations in property development and investments covering across Malaysia, Singapore, Australia, the United Kingdom and Japan. He was appointed as a non-independent non-executive director of Amalgamated Industrial Steel Berhad (which is listed on the Main Market of Bursa Malaysia Securities Berhad) (stock code: 2682) on 26 September 2007, and re-designated as an executive director on 23 November 2016.

Mr. CS Lim obtained a bachelor's degree in Computer System Engineering from the University of Kent, the United Kingdom in July 2003.

Mr. CS Lim was a director or alternate director of the following companies which were incorporated in Hong Kong and Malaysia when they were dissolved or are in the process of dissolution other than by member's voluntary winding-up with details as follows:

Name of Company	Nature of business	Means of dissolution	Date of commencement of winding-up procedure/notice of deregistration/notice of striking off	Date of dissolution	Reasons for dissolution
Northstar Heritage Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	26 November 2009	27 May 2010	No business operation
Fresh Ventures Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	22 September 2010	13 April 2011	No business operation
LGB Construction Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	5 January 2011	30 September 2011	No business operation
TIBI	Inactive	Winding-up by court on just and equitable grounds	24 August 2011	In the process of liquidation	Cessation of business
Taliworks-IBI Technologies (Xiamen) Limited	Inactive	Dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	24 February 2012	14 September 2012	Cessation of business
Prolific Equity Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	18 September 2015	28 June 2016	No business operation

Name of Company	Nature of business	Means of dissolution	Date of commencement of winding-up procedure/notice of deregistration/notice of striking off	Date of dissolution	Reasons for dissolution
Tilgea Consortium	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	13 July 2017	21 February 2018	No business operation
Asia One Cloud Sdn. Bhd.	Dormant	In the process of striking off pursuant to the Malaysian Companies Act, 2016	21 September 2018	In the process of striking off	No business operation

Taliworks-IBI Technologies (Xiamen) Limited was a subsidiary of TIBI. For further details of the above companies, please see "History, Reorganisation and Development — Excluded Businesses and Disposed and Dissolved Entities — Tilgea Consortium" and "History, Reorganisation and Development — Corporate Development — TIBI" in this document.

Mr. CS Lim confirmed that, to the best of his knowledge, the above dissolved companies were solvent and inactive immediately prior to their dissolutions, and that there is no wrongful act on his part leading to their dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of their dissolution.

Executive Director

Mr. Wong Kok Sun, aged 46, was appointed as a Director on 11 May 2018, and re-designated as an executive Director on 11 May 2018. He joined our Group as the chief executive officer in May 2012. Mr. Wong is primarily responsible for overall strategic planning and supervising daily operation of our Group. He has accrued abundant experience in wastewater treatment business in the PRC through working in our Group since 2012 and, in particular, led the management and operation of our principal operating subsidiary, TYW, since its early stage of development. He is also a director of various subsidiaries of our Group.

Prior to joining our Group, Mr. Wong was the representative of Beijing Representative Office of Orient Resource Holdings Limited (a company listed on the Australian Stock Exchange Limited (stock code: ORH)), which is primarily engaged in extraction of minerals from tailings, since October 2005. From April 2002 to September 2004, he acted as an executive director of Aptus Holdings Limited (a company listed on the GEM of Stock Exchange (Stock Code: 8212)).

He obtained a bachelor's degree in Business Administration from the Western Michigan University, the United States of America in April 1996 and a master's degree of Business Administration from Tsinghua University, the PRC in May 2011.

Mr. Wong was a director of the following company incorporated in Malaysia, which was deregistered with details as follows:

Name of Company	Nature of Business	Means of dissolution	Date of commencement of winding-up procedure/notice of deregistration/notice of striking off	Date of dissolution	Reasons for dissolution
E-tradeharbor Corporation Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	7 July 2008	21 October 2011	No business operation

Mr. Wong confirmed that, to the best of his knowledge, the above dissolved company was solvent and inactive immediately prior to its dissolution, and that there is no wrongful act on his part leading to its dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of its dissolution.

Independent Non-executive Directors

Mr. Tan Yee Boon (陳于文), aged 43, was appointed as an independent non-executive Director on 4 October 2018. He is responsible for supervising and providing independent judgement to our Board.

Mr. Tan has been an independent non-executive director of Protasco Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 5070) since January 2013, Central Industrial Corporation Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 8052) since June 2015, China Dynamics (Holding) Limited (which is listed on the Main Board of the Stock Exchange) (Stock Code: 476) since June 2016 and Binasat Communication Berhad (which is listed on the ACE Market of Bursa Malaysia Berhad) (Stock Code: 0195) since June 2017. Mr. Tan was an independent non-executive director of Earnest Investments Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 339), from June 2009 to May 2017. In addition, he was a non-executive director of Worldgate Global Logistic Limited, the shares of which are listed on the GEM of the Stock Exchange (Stock Code: 8292), from March 2016 to May 2018.

He was admitted as an advocate and solicitor of the High Court of Malaya in November 1999. He was the founder and has been a partner of Messrs. David Lai & Tan, a firm of advocates and solicitors in Malaysia since May 2013. He is currently practicing as an advocate and solicitor of the High Court of Malaysia. In addition to his expertise in commercial and corporate disputes through his legal practice, Mr. Tan possesses extensive experience in restructuring, corporate finance, merger and takeovers, capital reduction and schemes of arrangement.

He obtained his bachelor's degree in laws from the University of South Wales (formerly known as University of Glamorgan), the United Kingdom in June 1997 and the Certificate of Legal Practice from the Legal Qualifying Board of Malaysia in November 1998.

Mr. Tan was a director of the following company incorporated in Malaysia, which was deregistered with details as follows:

Name of Company	Nature of Business	Means of dissolution	Date of commencement of winding-up procedure/notice of deregistration/notice of striking off	Date of dissolution	Reasons for dissolution
Aswath Corporate Advisory Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	31 January 2013	6 August 2013	Intended use no longer exists

Mr. Tan confirmed that, to the best of his knowledge, the above dissolved company was solvent and inactive immediately prior to its dissolution, and that there is no wrongful act on his part leading to its dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of its dissolution.

Mr. Hew Lee Lam Sang, aged 54, was appointed as an independent non-executive Director on 4 October 2018. He is responsible for supervising and providing independent judgement to our Board.

Mr. Hew Lee has been qualified as a Certified Public Accountant in Malaysia since 1988 and has more than 27 years of experience in the auditing and business advisory profession with KPMG in Malaysia. Mr. Hew Lee was the head of the consulting practice of KPMG in Malaysia before he was elected to manage the whole advisory practice in Malaysia until his retirement from practice at the end of 2015. His vast experience includes external auditing, initial public offerings, review of financial forecast and projections, corporate restructuring, share valuation, etc.

Mr. Hew Lee has been an independent non-executive director of Versatile Creative Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 4995) since 30 August 2018.

Mr. Hew Lee has been a member of Malaysian Institute of Certified Public Accountants since July 1988 and a member of Malaysian Institute of Accountants since March 1990.

Mr. Hew Lee was a director of the following company incorporated in Malaysia, which was deregistered with details as follows:

Name of Company	Nature of Business	Means of dissolution	Date of commencement of winding-up procedure/notice of deregistration/notice of striking off	Date of dissolution	Reasons for dissolution
KPMG Technology Sdn. Bhd.	Dormant	Striking out pursuant to the Malaysian Companies Act, 2016	12 May 2014	29 October 2014	No business operation

Mr. Hew Lee confirmed that, to the best of his knowledge, the above dissolved company was solvent and inactive immediately prior to its dissolution, and that there is no wrongful act on his part leading to its dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of its dissolution.

Mr. Tam Ka Hei Raymond (譚家熙), aged 38, was appointed as an independent non-executive Director on 4 October 2018. He is responsible for supervising and providing independent judgement to our Board.

Mr. Tam has over 10 years of experience in corporate finance. He is currently an associate director of the corporate finance department at Yu Ming Investment Management Limited ("**Yu Ming**") and a licensed holder to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. Prior to joining Yu Ming in February 2011, Mr. Tam had gained solid corporate finance and accounting experience through his work experience with First Shanghai Capital Limited, a company licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, and Ernst & Young.

He obtained his bachelor of arts degree in Accounting and Finance with Computing from University of Kent, the United Kingdom in July 2002.

Disclosure required under Rules 13.51(2) of the Listing Rules

Save as disclosed under this section, each of our Directors confirms with respect to him that: (a) he has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas: (b) he did not held other positions in our Company or other members of our Group as at the Latest Practicable Date; (c) he did not have any relationship with any other Directors, senior management, substantial Shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date; (d) he does not have any interests in our Shares within the meaning of Part XV of the SFO, save as disclosed in "Statutory and General Information — C. Further Information about Substantial Shareholders, Directors and Experts — 1. Disclosure of Interests" in Appendix IV to this document; and (e) to the best of the knowledge, information and belief of our Directors, having

made all reasonable enquires, there was no additional information relating to our Directors or senior management that was required to be disclosed pursuant to Rules 13.51(2) of the Listing Rules and no other matter which respect to their appointments that needed to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT

The following table sets forth the information concerning our senior management:

Members of our senior management

Name	Age	Date of joining our Group	Position	Role and Responsibilities	Relationship with other Directors and senior management
Mr. Wong Sze Zue	44	12 December 2016	Financial controller	Overall financial management and accounting operations for our Group in the PRC	Nil
Mr. Han Ning (韓寧)	59	16 September 2013	General manager	Overall daily management and operations	Nil
Mr. Keric Loke Guan Aik	37	1 June 2011	Deputy general manager	Assisting the general manager in daily management and operations	Nil

Mr. Wong Sze Zue, aged 44, joined our Group as our financial controller since 12 December 2016. He is responsible for the overall financial management and accounting operations for our Group in the PRC. He supervises a team of finance and accounting staff on the day-to-day financial and accounting matters.

Before joining our Group, he was a general manager of Shanghai Sime Darby Motor Sales and Services Company Limited from January 2012 to June 2015. Before that, Mr. Wong worked in the finance department of LSH Auto Group in the PRC from 2003.

Mr. Wong obtained his bachelor's degree of business from Royal Melbourne Institute of Technology, Australia in December 1996. He has been a member of Malaysian Institute of Accountants since August 2000 and his membership category is Chartered Accountant. He is also a member of Australian Society of Certified Practising Accountants since July 2000 which qualifies him the designation of a certified practising accountant.

Mr. Han Ning (韓寧), aged 59, joined our Group as the general manager since 16 September 2013.

Mr. Han has gained more than 19 years of experience in the water and wastewater treatment industry. In particular, before joining our Group, he was appointed as an overseas project manager of ENV Water (Singapore) Pte. Ltd., responsible for projects in the PRC and other Southeast Asian countries.

Mr. Han obtained a bachelor's degree in Agricultural Machinery Engineering (農業機械工程) from Luoyang Institute of Agricultural Machinery (洛陽農業機械學院) (now known as Henan University of Science and Technology (河南科技大學), the PRC in July 1982 and a master's degree in Agricultural Machinery Design and Production (農機設計製造) from Jiangsu Institute of Technology (江蘇工學院) (now known as Jiangsu University (江蘇大學)), the PRC in June 1988. In addition, he obtained a professional qualification as an engineer of agricultural machinery (農機工程師) in the PRC in August 1991.

Mr. Keric Loke Guan Aik (駱眐禕), aged 37, joined our Group as a financial manager on 1 June 2011, and was appointed as a deputy general manager since December 2016.

From October 2004 to May 2011, Mr. Loke worked as a business development executive in Sungai Harmoni Sdn. Bhd., which is a wholly-owned subsidiary of Taliworks Corporation Berhad. He has over 14 years of working experience in finance, administrative and purchasing departments in wastewater treatment industries, and is primarily responsible for managing, operating and exploring business opportunities for our Group.

He obtained his bachelor of arts degree honours in Business Administration from the University of East London, the United Kingdom in March 2004.

COMPANY SECRETARY

Ms. Tsui Sum Yi (徐心兒) was appointed as our company secretary on 11 May 2018. Ms. Tsui is currently an assistant manager at Vistra (Hong Kong) Limited, where she is responsible for providing a full range of company secretarial and compliance services to listed and private companies. Ms. Tsui has over ten years of company secretarial experience. Prior to joining Vistra (Hong Kong) Limited in October 2015, she served as an assistant in the secretarial division of Kingston C.P.A. Limited from June 2007 to May 2010, a company secretary in Gary Cheng Secretaries Limited from May 2010 to October 2011, a secretarial officer in KCS Hong Kong Limited from November 2011 to October 2014 and a company secretarial officer in Country Garden Group from January 2015 to September 2015. She has been the company secretary of Icicle Group Holdings Limited (stock code: 8429), a company listed on GEM of the Stock Exchange, and Pentamaster International Limited (stock code: 1665), a company listed on Main Board of the Stock Exchange, in April 2017 and August 2017, respectively.

Ms. Tsui obtained a bachelor's degree in business administration in corporate administration and a master of corporate governance degree from the Open University of Hong Kong in June 2010 and June 2013, respectively. Ms. Tsui was admitted as an associate of The Institute of Chartered Secretaries and Administrators and an associate of The Hong Kong Institute of Chartered Secretaries in October 2013.

BOARD COMMITTEES

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

Audit Committee

Our Company established an audit committee on 4 October 2018 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in the Appendix 14 of the Listing Rules. The audit committee consists of two independent non-executive Directors and one non-executive Director, being Mr. Hew Lee Lam Sang, Mr. Lim Chin Sean and Mr. Tam Ka Hei Raymond. The audit committee is chaired by Mr. Hew Lee Lam Sang, who has a professional qualification in accountancy. The primary duties of the audit committee are, among other things, to asset our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process, to nominate and monitor external auditors, to provide advice on matters related to corporate governance and to perform other duties and responsible as assigned by the Board.

Remuneration Committee

Our Company established a remuneration committee on 4 October 2018 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set out in the Appendix 14 of the Listing Rules. The remuneration committee consists of three independent non-executive Directors, being Mr. Tan Yee Boon, Mr. Tam Ka Hei Raymond and Mr. Hew Lee Lam Sang. The remuneration committee is chaired by Mr. Tan Yee Boon. The primary duties of the remuneration committee are, among other things, to make recommendations to our Board regarding our policy and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies and to make recommendations to our Board on the remuneration packages of our Directors and senior management.

Nomination Committee

Our Company established a nomination committee on 4 October 2018 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set out in the Appendix 14 of the Listing Rules. The nomination committee consists of three members, two of whom are independent non-executive Directors, being Mr. Lim Chin Sean, Mr. Tam Ka Hei Raymond, and Mr. Tan Yee Boon. The nomination committee is chaired by Mr. Lim Chin Sean. The primary of duties of the nomination committee are, among other things, to make recommendations to our Board on the appointment of members of our Board.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For the three years ended 31 December 2017 and the four months ended 30 April 2018, the aggregate emoluments (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) paid by our Group to our Directors, were approximately HK$384,000, HK$779,000, HK$1.4 million and HK$589,000 respectively.

The five individuals during the three years ended 31 December 2017 and the four months ended 30 April 2018 whose emoluments were the highest in the Group include nil, one, one and one Director whose emoluments is reflected in note 10 to the Accountant's Report in Appendix I to this document. For the three years ended 31 December 2017 and the four months ended 30 April 2018, the emoluments payable to the remaining five, four, four and four individuals were approximately HK$1.4 million, HK$1.6 million, HK$2.0 million and HK$972,000, respectively.

Under the arrangements currently proposed, conditional upon the [REDACTED], the basic annual remuneration (excluding payment of any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of the Directors will be as follows:

	HK$
Chairman and Non-executive Director	
Mr. Lim Chin Sean	130,000
Executive Director	
Mr. Wong Kok Sun	1,150,000
Independent Non-executive Directors	
Mr. Tan Yee Boon	130,000
Mr. Hew Lee Lam Sang	130,000
Mr. Tam Ka Hei Raymond	130,000

During the Track Record Period, no emoluments were paid by our Group to our Directors or the above highest paid individuals as (i) an inducement to join or upon joining our Group; or (ii) as compensation for loss of office as a director or management of any members of our Group. There was no arrangement under which a Director has waived or agreed to waive any emolument during the Track Record Period.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of our Group. Our Group regularly reviews and determines the remuneration and compensation package of our Directors and senior management, by reference to market level of salaries paid by comparable companies, the respective responsibilities of the Directors and senior management and the performance of our Group.

After [REDACTED], our Remuneration Committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, and the time devoted to our Group and the performance of our Group.

SHARE OPTION SCHEME

We adopted the Share Option Scheme on 4 October 2018. For details of the Share Option Scheme, please see "Statutory and General Information — D. Share Option Scheme" in Appendix IV to this document.

COMPLIANCE ADVISER

We have appointed Red Sun Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share buy backs;

(c) where we propose to use the net proceed of the [REDACTED] in a manner different form the detailed in this document or where our business activities, development or results deviate from any forecast, estimate or other information in this document; and

(d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trade volume of our Shares.

The terms of the appointments shall commence on the [REDACTED] and end on the date on which we distribute our annual report of our financial results of the first full financial year commencing after the [REDACTED]. Such appointment may be subject to extension by mutual agreement.

CORPORATE GOVERNANCE

Our Directors recognise the importance elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve high standard of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we comply and will comply with the Corporate Governance Code as set out in the Appendix 14 of the Listing Rules after the [REDACTED].

We will review our corporate government policies and compliance with the Corporate Governance Code as set out in the Appendix 14 of the Listing Rules each financial year and comply with the "comply or explain" principal in our corporate government report, which will be included in our annual reports subsequent to the [REDACTED].

So far as our Directors are aware, immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the following persons and those as disclosed in the paragraph headed "Interest of substantial and other Shareholders in the Shares and underlying Shares" in Appendix IV to this document will have interest or short positions in our Shares or underlying Shares which would fall to be disclosed to us the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

LONG POSITION IN THE SHARES

Name	**Capacity/nature of interest**	**Number of Shares held/ interested as at the date of this document**	**Number of Shares held/ interested immediately following completion of the [REDACTED] and the [REDACTED]**	**Percentage of shareholding immediately following completion of the [REDACTED] and the [REDACTED]**
Mr. CM Lim	Interest held jointly with other persons; interest in a controlled corporation *(Notes 1 and 2)*	100,000	[REDACTED]	[REDACTED]
Mr. CS Lim	Interest held jointly with other persons; interest in a controlled corporation *(Notes 1 and 2)*	100,000	[REDACTED]	[REDACTED]
LGB (Malaysia)	Interest in a controlled corporation *(Note 1)*	100,000	[REDACTED]	[REDACTED]
LGB (HK)	Interest in a controlled corporation *(Note 1)*	100,000	[REDACTED]	[REDACTED]
Sparkle Century	Beneficial owner	100,000	[REDACTED]	[REDACTED]
Ms. Lee Li May	Interest of spouse *(Note 3)*	100,000	[REDACTED]	[REDACTED]
Ms. Cheong Sze Theng	Interest of spouse *(Note 4)*	100,000	[REDACTED]	[REDACTED]

Notes:

1. LGB (Malaysia) beneficially owns 70% of the issued share capital of LGB (HK), which beneficially owns 100% of the issued share capital of Sparkle Century. As such, each of LGB (Malaysia) and LGB (HK) is deemed, or taken to be, interested in all the Shares held by Sparkle Century for the purposes of the SFO.

2. Sparkle Century is wholly-owned by LGB (HK), which is owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, respectively. LGB (Malaysia) is owned as to 30.40%, 30.40%, 10.43%, 10.43%, 10.43%, 5.41% and 2.50% by Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling, respectively. As a result of the Concert Party Deed, Mr. CM Lim and Mr. CS Lim are deemed, or taken to be, interested in all the Shares held by Sparkle Century for the purposes of the SFO.

3. Ms. Lee Li May is the spouse of Mr. CM Lim and is therefore deemed to be interested in the [REDACTED] Shares in which Mr. CM Lim has, or is deemed to have, for the purpose of the SFO.

4. Ms. Cheong Sze Theng is the spouse of Mr. CS Lim and is therefore deemed to be interested in the [REDACTED] Shares in which Mr. CS Lim has, or is deemed to have, for the purpose of the SFO.

Save as disclosed above and those as disclosed in the paragraph headed "Interest of substantial and other Shareholders in the Shares and underlying Shares" in Appendix IV to this document, our Directors are not aware of any other persons who will, immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the issued voting shares of any other members of our Group.

SHARE CAPITAL

Without taking into account any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme, the share capital of our Company immediately following the [REDACTED] and the [REDACTED] will be as follows:

Authorised share capital:		*HK$*
10,000,000,000	Shares	100,000,000

Issued and to be issued, fully paid or credited as fully paid upon completion of the [REDACTED] and the [REDACTED]:		*HK$*
100,000	Shares in issue at the date of this document	1,000
[REDACTED]	Shares to be issued pursuant to the [REDACTED]	[REDACTED]
[REDACTED]	Shares to be issued pursuant to the [REDACTED]	[REDACTED]
[REDACTED]	Shares	[REDACTED]

MINIMUM PUBLIC FLOAT

According to Rule 8.08 of the Listing Rules, at the time of the [REDACTED] and at all times thereafter, our Company must maintain the "minimum prescribed percentage" of 25% of our Company's issued share capital in the hands of the public.

RANKING

The [REDACTED] will rank pari passu in all respects with all our Shares now in issue or to be issued as mentioned in this document, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of [REDACTED] other than participation in the [REDACTED].

[REDACTED]

Pursuant to the resolution of our sole Shareholder passed on 4 October 2018, subject to the share premium account of our Company being credited as a result of the [REDACTED], our Directors are authorised to allot and issue a total of [REDACTED] Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on 4 October 2018 (or as they may direct) in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK$[REDACTED] standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by the Shareholders) shall not exceed:

(a) 20% of the total number of Shares in issue immediately following the completion of the [REDACTED] and the [REDACTED] (not including Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme); and

(b) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares referred to in the paragraph headed "General Mandate to Repurchase Shares" below.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of the options which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until of the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please see "Statutory and General Information — A. Further information about our Company — 3. Written resolutions of our sole Shareholder passed on 4 October 2018" in Appendix IV to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with such number of Shares not more than 10% of the total number of Shares in issue following the completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on 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, and such repurchases are made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Statutory and General Information — A. Further information about our Company — 6. Repurchase of the Shares by our Company" in Appendix IV to this document.

The general mandates to issue and repurchase Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and the Articles or the Companies Law or any other applicable law of the Cayman Islands to be held; or

(c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed "Statutory and General Information — A. Further information about our Company — 6. Repurchase of the Shares by our Company" in Appendix IV to this document.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Details of the principle terms of the Share Option Scheme are summarised in the section headed "Statutory and General Information — D. Share Option Scheme" in Appendix IV to this document.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in the section headed "Summary of the constitution of our Company and Cayman Islands Company Law" set out in Appendix III to this document.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

*You should read this section in conjunction with our Group's audited combined financial statements, including the notes thereto, as set forth in the Accountant's Report in Appendix I to this document. The Accountant's Report has been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**"). You should read the entire Accountant's Report and not merely rely on the information contained in this section.*

The following discussion and analysis and analysis contains certain forward-looking statements that reflect the current views in respect of future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the 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 those discussed in the sections headed "Forward-Looking Statements", "Risk Factors" and "Business" as well as those discussed elsewhere in this document.

OVERVIEW

As a wastewater treatment service provider operating and managing four wastewater treatment facilities located in Yinchuan, being the capital city of Ningxia, the PRC, we are the leading and the largest wastewater treatment services provider in Ningxia in terms of both (i) our total designed wastewater treatment capacity which accounted for approximately 65.3% and 37.5% of the total designed wastewater treatment capacity, in Yinchuan and Ningxia, respectively, as of 31 December 2017; and (ii) our total wastewater treatment volume which accounted for approximately 78.0% and 43.4% of the total wastewater treatment volume in Yinchuan and Ningxia, respectively, during the year ended 31 December 2017, according to the CIC Report.

Pursuant to the Concession Agreement, we have the exclusive right to manage and operate four wastewater treatment facilities in Yinchuan, namely, Yinchuan Wastewater Treatment Plant 1, Yinchuan Wastewater Treatment Plant 2, Yinchuan Wastewater Treatment Plant 3 and Yinchuan Wastewater Treatment Plant 4 to provide wastewater treatment services to the communities and industries in Yinchuan, we also undertake the upgrading and expansion of our wastewater treatment facilities to achieve higher wastewater discharge standards and to increase our designed treatment capacities.

We operate and manage our Wastewater Treatment Plants on a "Transfer — Operate — Transfer" (TOT) basis for a term of 30 years pursuant to the Concession Agreement entered into with the local government of Yinchuan in September 2011. Under a TOT project model, we took over the operations of our Wastewater Treatment Plants from the local government and operate and manage the facilities to provide wastewater treatment services during the concession period and we are required to return the operations and facilities to the local government upon the expiry of the concession period.

During the Track Record Period, our revenue was primarily derived from three major revenue components, namely: (i) wastewater treatment construction services; (ii) wastewater treatment operation services; and (iii) finance income from service concession arrangement. The revenue contribution of our three major revenue components were as follows, (i) approximately 36.4%, 15.8%, 53.8% and 44.5% of our revenue was derived from wastewater treatment construction services; (ii) approximately 29.2%,

42.2%, 20.9% and 30.0% of our revenue was derived from wastewater treatment operation services; and (iii) approximately 31.4%, 39.0%, 23.5% and 23.5% of our revenue was derived from finance income from service concession arrangement, during the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. We recorded revenue of approximately HK$250.5 million, HK$207.4 million, HK$366.4 million and HK$138.4 million for the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. During the same period, we also recorded profit for the year of approximately HK$45.1 million, HK$45.6 million, HK$58.9 million and HK$19.4 million, respectively.

Recent development

Based on our Group's unaudited management accounts made up to the period of eight months ended 31 August 2018, the unaudited monthly revenue for the eight months ended 31 August 2018 was higher than the monthly average revenue for the year ended 31 December 2017, which was mainly attributable to more revenue derived from wastewater treatment operation services as the upgrading and expansion works for Phase I of Yinchuan Wastewater Treatment Plant 2 and Yinchuan Wastewater Treatment Plant 4 were completed in December 2017.

Subsequent to the Track Record Period, our ongoing and planned upgrading and expansion works include (i) Plant 1 upgrading works involving the improvement in wastewater treatment standard from Class II to Class IA, which was in the testing and commissioning stage as at the Latest Practicable Date and is expected to be completed by the end of 2018; (ii) Phase II of Plant 2 expansion works, which is expected to commence by the end of 2018 and to be completed by the end of 2019 whereby the designed capacity will be further increased to 100,000 cubic metres per day; and (iii) the physical construction works for the expansion of Plant 4 for an additional capacity of 100,000 cubic metres per day whereby the discharge standard shall meet Quasi Surface Waster Standard Class IV (準四類水標準) which is expected to commence in the second half of 2018 and completed by the end of 2020. For details of our upgrading and expansion works and the latest status as at the Latest Practicable Date, please refer to the summary table set out in "Business — Our existing wastewater treatment facilities" in this document.

During the eight months ended 31 August 2018, based on our unaudited management accounts, we incurred construction costs of approximately HK$164.2 million for the upgrading and expansion works on our Wastewater Treatment Plants.

Subject to various factors, including among others, the progress of our scheduled upgrading and expansion works, the actual level of cost of sales, including operating costs and construction costs, and general and administrative expenses, to be incurred by our Group, based on the information available as at the Latest Practicable Date and barring unforeseen circumstances, partly attributable to our ongoing and planned upgrading and expansion works, our Directors expected the gross and net profit margins of our Group (excluding [REDACTED] expenses) for the year ending 31 December 2018 to be within the gross and net profit margins range recorded by our Group during the three years ended 31 December 2015, 2016 and 2017. Our Group's gross profit margin and net profit margin ranged from approximately 36.2% to 54.0% and approximately 16.1% and 22.0% during the three years ended 31 December 2017.

The total indebtedness of our Group as at 31 August 2018, being the latest practicable date for determining the amount of indebtedness in this document, amounted to approximately HK$1,348.8 million. Further details of our Group's indebtedness statement as at 31 August 2018 are set out under the paragraph headed "Financial Information — Indebtedness" in this document.

BASIS OF PRESENTATION

Prior to the [REDACTED], our Group had undergone the Reorganisation after which our Company has become the holding company of the companies now comprising our Group since 10 May 2018. Please refer to the section headed "History, Reorganisation and Development" in this document for details.

Immediately prior to and after the Reorganisation, our business is held by TIL and its subsidiaries, which were owned and controlled by the Controlling Shareholders. Pursuant to the Reorganisation, TIL and our business are transferred to and held by the Company. The Reorganisation is merely a reorganisation of the shareholding structure of our business with no changes in management and the ultimate owners of our business remain the same. Accordingly, the Group, resulting from the Reorganisation, is regarded as a continuation of our business under TIL and, for the purpose of the Accountant's Report set out in Appendix I of this document, the combined financial information has been prepared and presented as a continuation of the consolidated financial statements of TIL and its subsidiaries.

Our combined financial information throughout the Track Record Period has been prepared in accordance with HKFRS. Inter-company transactions, balances and unrealised gains on transactions between the combining entities or businesses have been eliminated upon consolidation.

The historical financial information of our Group for the Track Record Period, as set out in Appendix I to this Document, has been prepared in accordance with the applicable HKFRSs (the "**Historical Financial Information**"). Having assessed the effects of (i) adopting HKFRS 9 on the Historical Financial Information as compared to the adoption of HKAS 39; and (ii) adopting HKFRS 15 as compared to the adoption of HKAS 18 on the Historical Financial Information, save for the change in classification of certain assets and liabilities in the statement of financial position of the Group attributable to the adoption of HKFRS 15, our Directors considered that the adoption of HKFRS 9 and HKFRS 15 would not have a significant impact on our financial position and performance.

Having assessed the adoption of HKFRS 16, under the modified retrospective approach upon the initial adoption, our Directors noted the following:

- comparative information for prior periods is not restated;
- the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which our Group first applies the requirement of HKFRS 16, i.e. 1 January 2019; and
- our Group will recognise the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained profit (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 January 2019.

As at 30 April 2018, our Group has non-cancellable operating lease commitments of approximately HK$1.5 million which accounted for less than 1% of our Group's total asset and liabilities as at 30 April 2018. Our Group expects that the adoption of HKFRS 16 as compared with the current accounting policy would not result in significant impact on our Group's assets and liabilities. However, upon adoption of HKFRS 16, our Group will recognise a liability reflecting these future lease payments and right-of-use assets, unless the underlying asset is of low value or they are short-term leases, in the

balance sheets. However, our Group does not expect a significant impact on operating performance, except for the recognition of depreciation expenses of the related right-of-use assets and interest expenses on the lease liability in the statement of comprehensive income, instead of operating lease expenses.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENT

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 HKFRS 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 document.

Set out below are selected critical accounting policies adopted and estimates made in the preparation of our combined financial statements which we believe are both important to the presentation of our financial results and involve significant estimates and judgements. Further details are set forth in Note 4 "Critical accounting estimates and judgements" of the Accountant's Report contained in Appendix I to this document.

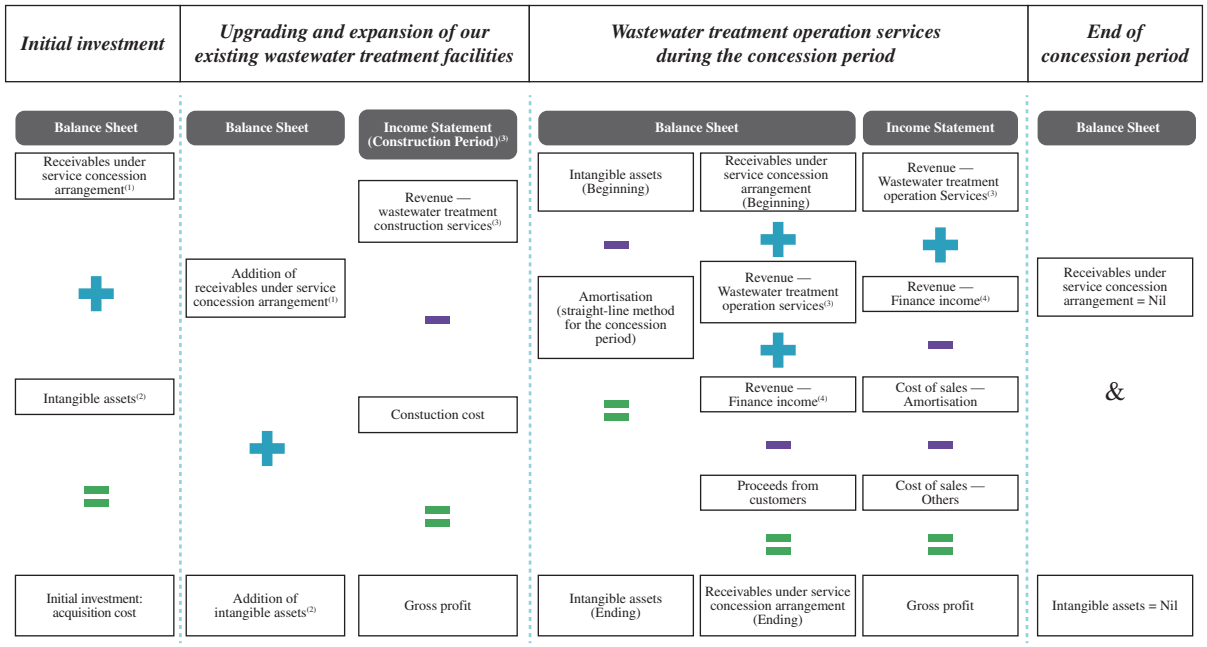
Service concession arrangement

We entered into the Concession Agreement with Yinchuan Construction Bureau to operate and manage our Wastewater Treatment Plants for a term of 30 years commencing from September 2011 and expiring in September 2041. Based on the terms of the Concession Agreement, pursuant to HKFRS, IFRIC 12 Service Concession Arrangements applies to our wastewater treatment business. In addition, our Wastewater Treatment Plants must be transferred to the aforesaid governmental authority at the end of the concession period in September 2041 for nil consideration.

As set out in the Accountant's Report of Appendix I to this document, key assumptions in calculating the value of the concession rights under the Concession Agreement include, but not limited to, (i) the construction profit margin (10.0%); (ii) the operating profit margin (39.0%); (iii) interest rate (6.75%); and (iv) inflation of operating costs (3.0%).

Set out below is a simplified diagram illustrating the effects of the Concession Agreement to our financial statements:

Diagram: Concession Agreement — Effects to the financial statements



Notes:

(1) Receivable under service concession arrangement is recognised to the extent that we have an unconditional right to receive tariff payments based on the basic volumes stipulated under the Concession Agreement.

(2) An intangible asset is recognised to the extent that the right to charge users or local governments is dependent upon the usage or amount of services rendered.

(3) Revenue for (i) wastewater treatment operation services; and (ii) wastewater treatment construction services are recognised on the basis of actual costs with reasonable profit margins as advised by JLL, respectively.

(4) Financial income generated from receivables under service concession arrangement (financial assets) is calculated based on a reasonable interest rate as advised by JLL.

Initial investment

The initial consideration for the acquisition of the concession right and underlying assets of our Wastewater Treatment Plants under the Concession Agreement is accounted for as a financial asset (see Note 16 to the Accountant's Report), an intangible asset (see Note 17 to the Accountant's Report) or a combination of both, as appropriate.

A financial asset (receivables under service concession arrangement) is recognised to the extent that we have an unconditional right to receive tariff payments based on the basic volumes stipulated under the Concession Agreement. An intangible asset (operating concession) is recognised to the extent that the right to charge users or local governments is depended upon the usage or amount of services rendered, which is not an unconditional right to receive cash.

Significant judgement is exercised in determining the fair value of the consideration for construction service, the segregation of the consideration for a service concession arrangement between the financial asset component and the intangible assets component at initial recognition. Major estimates and assumptions used in the valuation process include the interest rate, the operating margin and the construction margin etc. Any change in the expected cash flows will result in change in the carrying value of the financial asset component and the intangible assets component. For further details, please refer to Note 4.1 "Service concession arrangement" set out in the Accountant's Report in Appendix I to this document.

Operational phase post acquisition

As set out above, our services under the Concession Agreement is considered to be service concession arrangement within the scope of IFRIC 12 Service Concession Arrangements. In this connection, we recognise revenue (i) for the upgrading and expansion of our existing wastewater treatment facilities; (ii) for our wastewater treatment operation, whereby revenue is recognised for the provision of wastewater treatment operation services; and (iii) as finance income from service concession arrangement.

(i) Upgrading and expansion of our existing wastewater treatment facilities

During the upgrading and expansion of our Wastewater Treatment Plants, we recognised non-cash revenue in respect of our wastewater treatment construction services. However, we did not receive any payment in cash from the relevant authorities directly for our wastewater treatment construction services when the relevant revenue was recognised. After the completion of the upgrading and expansion of our Wastewater Treatment Plants, the actual cash inflow from wastewater treatment construction services would be received in the form of cash tariff payments over the remaining concession period. As a result, there would be a mismatch between the recognition of revenue and the underlying cash flows for our wastewater treatment construction services.

The wastewater treatment construction services revenue for our upgrading and expansion services under the Concession Agreement is calculated as the total construction costs plus a reasonable profit margin advised by JLL, based on prevailing market rate applicable to similar construction services.

Revenue from wastewater treatment construction services is recognised over time by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

During the Track Record Period, revenue recognised from construction service was in connection with the upgrading and expansion works carried out for our Wastewater Treatment Plants, respectively.

As set out in the diagram headed "Concession Agreement — Effects to the financial statements" under section headed "Financial Information — Service concession arrangement", a financial asset (i.e. receivables under service concession arrangement), an intangible asset or a combination of both, as appropriate, is recognised for the upgrading and expansion of our Wastewater Treatment Plants under the Concession Agreement.

Significant judgement is exercised in determining the fair value of the financial receivables relating to construction services at initial recognition. Major estimates and assumptions used in the valuation process include the interest rate, the operating margin and the construction margin. Any change in the expected cash flows will result in change in the carrying value of the financial receivable. For further details, please refer to Note 4.1 "Service concession arrangement" set out in the Accountant's Report in Appendix I to this document.

(ii) Wastewater treatment operation during the concession period

Revenue from wastewater treatment operation services is recognised over the period when the services are rendered and our Group's performance provides all of the benefits received and/or consumed by the customer. Costs for operating services are expensed in the period in which they are incurred.

Our revenue for wastewater treatment operation services comprised of non-guaranteed and guaranteed portions. Non-guaranteed portion of wastewater treatment operation services revenue is measured based on the non-guaranteed wastewater treatment volume (being the excess of wastewater treatment volume (i.e., the additional volume) rendered in a period over the guaranteed wastewater treatment volume (i.e., the basic volume) in the same period as set out in the concession agreements) at the relevant wastewater treatment tariff, net of any relevant taxes. Guaranteed wastewater treatment operation revenue is measured based on the guaranteed wastewater treatment volume and wastewater treatment operating costs plus a reasonable profit margin advised by JLL, with reference to prevailing market rate applicable to similar wastewater operating service.

As we recognised the portion of consideration given to the relevant authorities representing the extent that we have an unconditional contractual right to receive cash from the relevant authorities as receivables under service concession arrangements (when we are entitled to the guaranteed revenue stream according to the Concession Agreement) which are carried at amortised costs, we also recognised finance income on receivables under service concession arrangement using the effective interest method throughout the concession period based on our outstanding receivables under service concession arrangement balance. Further details on the finance income on receivables under service concession arrangement is set out below.

When we receive tariff payment during the concession period, we apportion such payment into (i) a repayment of our receivables under service concession arrangements; (ii) revenue for wastewater treatment construction services; (iii) revenue for wastewater treatment operation services; and (iv) finance income on receivables under service concession arrangements.

(iii) Finance income from service concession arrangement

Finance income from service concession arrangement represents imputed interest income, which is recognised from time to time on receivables under service concession arrangement on an accrual basis using the effective interest method. The relevant interest rate at 6.75% used for our TOT model, was advised by JLL with reference to the yield from the PRC government bonds, local municipal bonds as well as city investment bonds (城投債).

Sensitivity analysis

The assumptions used in the sensitivity analysis are highly judgemental and interrelated, the change of one key assumption will trigger corresponding changes in other assumptions. The tables below set out sensitivity analysis illustrating the change in profit after tax during the relevant periods by applying a hypothetical fluctuation rate to (i) the construction margin of the wastewater treatment construction services of 0.5%; (ii) the operating margin of the wastewater treatment operation services at 1.0%; and (iii) the effective interest rate of the finance income from service concession arrangement at 0.5%.

Sensitivity analysis on construction margin of wastewater treatment construction services:

	Corresponding change in profit after tax			
				Four months
Hypothetical fluctuation in construction margin of the wastewater treatment construction services	**Year ended 31 December**			**ended 30 April**
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
+0.5%	163	(34)	528	211
–0.5%	(162)	34	(527)	(211)

Sensitivity analysis on operating margin of wastewater treatment operation services:

	Corresponding change in profit after tax			
				Four months
Hypothetical fluctuation in operating margin of the wastewater treatment operation services	**Year ended 31 December**			**ended 30 April**
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
+1.0%	(331)	(274)	(349)	(71)
–1.0%	331	274	349	71

Sensitivity analysis on effective interest rate of the finance income from service concession arrangement:

	Corresponding change in profit after tax			
				Four months
Hypothetical fluctuation in effective interest rate of the finance income from service concession arrangement	**Year ended 31 December**			**ended 30 April**
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
+0.5%	2,873	2,480	3,405	758
–0.5%	(2,661)	(2,316)	(3,146)	(719)

Impairment of receivables under service concession arrangement, trade and other receivables and non-financial assets

Receivables under service concession arrangement

We record impairments of receivables based on our management's assessment of the recoverability of receivables under service concession arrangement. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Making an impairment assessment requires the use of judgement and estimate. Where the expectation is different from the original estimate, such difference will impact both the carrying value of the receivables and the impairment charge in the period in which such estimate has been changed.

Trade and other receivables

Provision for expected credit loss is made when our Group will not collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision reflects lifetime expected credit losses, i.e. possible default events over the expected life of the receivables, weighted by the probability of that default occurring. Judgement has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of debtors and the likelihood of recovery assessed on a combination of collective and individual bases as relevant. While provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to profit or loss. Key judgements on provisions made across businesses are disclosed in Note 19 "Trade and other receivables" of the Accountant's Report contained in Appendix I to this document.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Taxation

According to the Concession Agreement entered into by our Group and Yinchuan Construction Bureau (the "**Grantor**") in September 2011, the Grantor will compensate our Group if there is any change in the tax rules of Business Tax ("**BT**") or Value-Added Tax ("**VAT**") during the concession period leading to increase in our Group's operating costs.

As disclosed in Note 4.1 "Service concession arrangement" of the Accountant's Report set out in Appendix I to this document, on 9 December 2008 the Ministry of Finance and SAT jointly issued Notice on Value Added Tax Policy Regarding Comprehensive Utilisation of Resources and Other Products Caishui [2008] No. 156 (the "**Caishui [2008] No. 156**"). According to Caishui [2008] No. 156 since 1 January 2009, taxpayers engaging in the wastewater processing business and sales of reclaimed water are eligible for 100% VAT exemption if they fulfil the requirements as set out in Caishui [2008] No. 156 and obtain Certificate of Comprehensive Utilisation of Resources. On 12 June 2015, the Ministry of Finance and SAT issued the preferential value-added tax catalogue of products and services which comprehensively utilised resources Caishui [2015] No. 78 (the "**Caishui [2015] No. 78**"). According to the Caishui [2015] No. 78, the wastewater processing business are required to pay VAT since 1 July 2015, in which 70% of VAT paid by the wastewater processing business will be refunded.

According to Caishui [2018] No. 32, jointly issued by the MOF and SAT, all industries that are subject to 17% and 11% VAT rate (including goods, labour services, services, intangible assets, and fixed assets, etc.) will be adjusted to 16% and 10% respectively with effect from 1 May 2018.

During the six months ended 30 June 2015, our Group was exempted from VAT according to Caishui [2008] No. 156. Since 1 July 2015, 70% of the VAT paid by our Group was refunded according to the Caishui [2015] No. 78 and our Group was eligible for the compensation for the remaining 30% of the VAT payment from the Grantor under the Concession Agreement. Although the Concession Agreement does not specify the extent of compensation of BT and VAT, our management considered that there is reasonable assurance to assume these refunds will be continuously received throughout the concession period. When the expectation is different from the original estimate, such differences will impact the segregation of the consideration between the financial asset component and the intangible asset component.

The VAT payment obligation and refund is assumed to take place in the same financial year. The amount and timing of the VAT payment and refund would have an impact on the cash balances of our Group as well as the construction margin and operation margin under the IFRIC 12 Service Concession Arrangements.

SIGNIFICANT FACTORS AFFECTING OPERATING RESULTS AND FINANCIAL CONDITION OF OUR GROUP

The results of operations and financial condition of our Group have been and will continue to be affected by a number of factors, many of which are beyond our control, including those discussed below and under the section headed "Risk Factors" in this document.

Renewal of the concessionary right in the Concession Agreement upon its expiry and our ability to secure new projects

During the Track Record Period, our Group's revenue was mainly derived from our wastewater treatment construction services, our wastewater treatment operation services, and finance income from service concession arrangement. We operate our Wastewater Treatment Plants under the Concession Agreement based on TOT model, whereby we are granted a concessionary right to operate the facilities for a specified period of time, i.e. 30 years, expiring in September 2041. There is no provision for automatic renewal of the concessionary right in the Concession Agreement. Upon the expiry of the concession period, we are required to surrender the control and rights of use of the facilities and the land occupied by the facilities to the local government for nil consideration.

Our Group's sustainability after the expiry of the existing term of the Concession Agreement in September 2041 and future growth depends on our ability to secure and execute new projects as well as our ability to obtain concession right to continue operating our existing facilities after the expiry of the current term of the Concession Agreement.

Changes in the laws and regulations for wastewater treatment services in the PRC

We operate within an industry where laws and regulations play a critical role in affecting our business. Any changes in legislative, regulatory or industrial requirements may render our wastewater treatment facilities obsolete.

While the PRC Government has adopted a favourable regulatory policy to the environmental protection industry and has stated its intention to allocate additional financial resources in such industry, we cannot assure you that the government will indeed execute such government spending plan. In addition, in the event that the government withdraws or suspends its favourable policy to the environmental protection industry in future, our growth and prospects could be materially and adversely affected.

Furthermore, changes in regulations or standards for wastewater treatment or other environmental regulations may require us to adopt new technologies or implement improvement to our existing facilities. We may need to upgrade our existing wastewater treatment flow or facilities to meet the standards imposed by the relevant regulatory authorities, which could require additional time or financial, human and other resources, thus these factors shall continue to have an impact on our operations going forward.

We finance a substantial portion of our wastewater treatment project through bank loans and our financing costs and profitability are subject to changes in interest rates

We have utilised a substantial amount of bank borrowing to fund our payment for acquiring the concession right and taking over the underlying assets of our Wastewater Treatment Plants under the TOT model upon our entering into of the Original Concession Agreement and the TOT Transfer Agreement in 2011. We were also required to make substantial investments for undertaking the contemplated upgrading and expansion works and we have relied on bank loans to finance a significant portion of such upgrading and expansion works during the Track Record Period.

As our bank loans are principally denominated in RMB, the interest rates on our loans are primarily affected by the benchmark interest rates set by PBOC. In the PRC, PBOC regulates the lending rates and reserve requirement ratios for commercial banks. The reserve requirement refers to the amount of funds that banks must hold in reserve with PBOC against deposits made by their customers. Increases in the bank reserve requirement ratios may negatively impact the amount of funds available to commercial banks in the PRC to lend to businesses, including our Company. We cannot assure you that the PBOC will not further raise lending rates or reserve requirement ratios in future and any such increase may lead to higher lending rates and/or limit the amount of funds the banks have for lending, which may increase our financing costs and thereby, materially and adversely affect our business, financial condition, results of operations and prospects.

Ability to adjust our tariffs and/or basic volumes on a timely basis to fully reflect any increase in our actual costs incurred in day-to-day operation

Our Group operates and maintains our existing Wastewater Treatment Plants and receive our wastewater treatment service fees from the local government based on pre-agreed tariffs. The wastewater treatment fees under the Concession Agreement are calculated based on a tariff for the basic volume of wastewater applicable to our individual Wastewater Treatment Plants and a discounted unit rate at 60% of the tariff for the additional volume in excess of the aforementioned basic volume.

The Concession Agreement contain provisions specifying the circumstances when the parties can revise the tariff rates, which include changes in operation and management costs due to inflation in the PRC by reference to the relevant benchmark prices which affect our cost for materials, labour, equipment and maintenance services for our facilities which, in turn, result in increase in our operating costs.

Furthermore, pursuant to the Concession Agreement, revisions in our tariffs and the applicable basic volume for calculating our wastewater treatment service fees shall be negotiated for between us and the local government upon completion of upgrading and expansion works. However, all the upgrading and expansion costs have to be borne by us first before we could receive a return from upward revisions to our tariffs and basic volumes and such revisions are subject to auditing of our construction costs by third parties engaged by the local government based on a 6-month operating track record after the completion of the relevant upgrading and/or expansion works and the final approval by the local government, which in total may take approximately up to two years after completion of the relevant contemplated upgrading and expansion works.

In view of the above, timely adjustment to our tariffs and/or basic volumes shall continue to have an impact on the results of our operations going forward.

Significant downtime in our wastewater treatment facilities may expose our Group to liabilities under the Concession Agreement as well as claims and disputes

Our Wastewater Treatment Plants may require downtime for repairs and maintenance during the course of our operations. However, if the time and cost required for such repairs and maintenance exceeds our expectations, our operations may be affected for a period longer than anticipated and our revenue from our Wastewater Treatment Plants may be less than we originally projected. In addition, if any extensive repairs to our facilities or equipment are required, due to any significant or catastrophic event or otherwise, our facilities could require significant downtime during which they would not be able to treat wastewater as required under the Concession Agreement. According to the Concession Agreement, each of our four existing plants shall not suspend its operations for more than 18 days cumulatively during any operation year, and during periods of suspension which have been planned ahead and approved by Yinchuan Construction Bureau, we are still required to treat not less than 50% of the daily basic volume of wastewater per day if the volume of incoming wastewater exceeds 50% of the daily basic volume per day, or where the volume of inflow of wastewater is below 50% of the daily basic volume, we are required to treat all of the inflow of wastewater for the relevant day, failing which we shall be liable to pay penalty to our customer. Moreover, if any of our plants are suspended from service for five consecutive days or above or accumulatively for 10 days or more during any operation year which have not been approved by our customer in advance, such suspension will constitute material breach of the Concession Agreement giving rights to our customer to early terminate the Concession Agreement and we may be subject to claims for damages. Furthermore, any unexpected significant downtime of our facilities may also have significant consequences to the communities and industries around our facilities, which in turn, could lead to our customer deciding to terminate the Concession Agreement with us or we may be subject to claims for damages. Thus, any such extraordinary or extensive downtime may lead to the termination of the Concession Agreement and claims which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

Our Group's preferential tax treatment may be unfavourably changed or discontinued

According to the applicable PRC laws and regulations, since 1 July 2015, 70% of the VAT paid by our Group was refunded and our Group was eligible for compensation for the remaining 30% of the VAT payment from Yinchuan Construction Bureau under the Concession Agreement, as further detailed under paragraph headed "Financial Information — Critical accounting policies, estimates and judgement — Taxation".

In the event of termination or expiration of our preferential tax treatment or the imposition of additional taxes on us or our subsidiaries in the PRC, it may lead to an increase in our expenses and have a material adverse effect on our business, financial condition, results of operations and prospects.

SUMMARY OF RESULTS OF OPERATIONS

The table below presents the summary of combined statements of comprehensive income of our Group during the Track Record Period extracted from the Accountant's Report as set out in Appendix I to this document.

Combined statements of comprehensive income

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	250,521	207,419	366,381	63,816	138,373
Cost of sales	(137,160)	(95,450)	(233,597)	(26,859)	(80,872)
Gross profit	113,361	111,969	132,784	36,957	57,501
Other income	3,360	2,514	2,847	510	761
Other gains/(losses)	3,358	982	(3,083)	(1,089)	(1,876)
General and administrative expenses	(8,450)	(9,918)	(10,017)	(3,617)	(3,766)
— [REDACTED] expenses	—	—	—	—	(8,374)
Finance costs	(50,835)	(42,818)	(41,972)	(13,305)	(14,884)
Profit before taxation	60,794	62,729	80,559	19,456	29,362
Income tax expense	(15,741)	(17,174)	(21,659)	(5,672)	(9,974)
Profit for the year	45,053	45,555	58,900	13,784	19,388
Other comprehensive income/(losses)	(26,829)	(37,912)	42,253	4,063	25,303
Total comprehensive income for the year	18,224	7,643	101,153	17,847	44,691

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Revenue

In accordance with IFRIC 12 Service Concession Arrangements, we recognised (i) revenue for our wastewater treatment construction services for the upgrading and expansion of our existing wastewater treatment facilities; (ii) revenue for our wastewater treatment operation services; and (iii) revenue as finance income from service concession arrangement, despite that we generally only receive payments for our services rendered during the operational phase. For details on revenue recognition of our Group, please refer to the paragraphs headed "Financial information — Critical accounting policies estimates and judgement — Service concession arrangement" in this section above.

During the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, our revenue was primarily derived from three major revenue components, namely: (i) wastewater treatment construction services, which amounted to approximately HK$91.2 million, HK$32.6 million, HK$197.2 million and HK$61.5 million, representing approximately 36.4%, 15.8%, 53.8% and 44.5% of our total revenue, respectively; (ii) wastewater treatment operation services, which amounted to approximately HK$73.2 million, HK$87.6 million, HK$76.6 million and HK$41.5 million, representing

approximately 29.2%, 42.2%, 20.9% and 30.0% of our total revenue, respectively; and (iii) finance income from service concession arrangement, which amounted to approximately HK$78.7 million, HK$80.9 million, HK$86.0 million and HK$32.5 million, representing approximately 31.4%, 39.0%, 23.5% and 23.5% of our total revenue, respectively.

The remaining revenue of approximately HK$7.4 million, HK$6.3 million, HK$6.5 million and HK$2.9 million was derived from our recycle water supply operation services and management fees from related companies, during the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. Such management fees were derived from the provision of management services to related companies during the Track Record Period, the relevant agreements of which were terminated on or before 30 April 2018. In this connection, no relevant management fees from related companies have been generated by our Group thereafter up to and including the Latest Practicable Date.

The following table sets forth a breakdown by revenue type in relation to revenue derived from wastewater treatment services during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2015		**2016**		**2017**		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Wastewater treatment construction services	91,243	36.4	32,647	15.8	197,249	53.8	8,428	13.2	61,546	44.5
Wastewater treatment operation services	73,194	29.2	87,571	42.2	76,590	20.9	26,294	41.2	41,470	30.0
Finance income from service concession arrangement	78,694	31.4	80,938	39.0	86,002	23.5	27,381	42.9	32,489	23.5
Recycle water supply operation services	6,299	2.5	5,189	2.5	5,428	1.5	1,354	2.1	2,118	1.5
Other revenue *(note)*	1,091	0.5	1,074	0.5	1,112	0.3	359	0.6	750	0.5
Total revenue	250,521	100.0	207,419	100.0	366,381	100.0	63,816	100.0	138,373	100.0

Note: Other revenue represented management fees from related companies during the Track Record Period.

Wastewater treatment construction services

During the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, we recognised approximately HK$91.2 million, HK$32.6 million, HK$197.2 million and HK$61.5 million as revenue from wastewater treatment construction services for the upgrading and expansion of our Wastewater Treatment Plants.

The following table sets forth the amount of revenue from our wastewater treatment construction services contributed by each of the Wastewater Treatment Plants during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Wastewater Treatment Plants:					
— Plant 1	7	1,139	45,510	1,709	59,536
— Plant 2	24	19,124	97,919	6,185	1,318
— Plant 3	89,952	(3,254) *(Note)*	—	—	—
— Plant 4	1,260	15,638	53,820	534	692
Total revenue from wastewater treatment construction services	91,243	32,647	197,249	8,428	61,546

Note: such amount represented the adjustment to the revenue for wastewater treatment construction services recognised during the year ended 31 December 2016 as the amount set out in the relevant final accounts agreed with the relevant subcontractors in connection with the upgrading and expansion works completed on Plant 3 being approximately HK$3.3 million less than the original estimated amount.

We have carried out various upgrading and expansion works on each of our Wastewater Treatment Plants during the Track Record Period. For further details of the upgrading and expansion works completed by our Group during the Track Record Period and the latest status of upgrading and expansion works as at the Latest Practicable Date, please refer to the section headed "Business — Our existing wastewater treatment facilities" in this document.

Wastewater treatment operation services

During the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, we recognised approximately HK$79.5 million, HK$92.8 million, HK$82.0 million and HK$43.6 million as revenue from wastewater treatment operation services and recycle water supply operation services. Based on the operating margin advised by JLL, (i) for the year ended 31 December 2015, out of approximately HK$79.5 million of revenue from wastewater treatment operation services and recycle water supply operation services, approximately HK$60.3 million was derived from and attributable to tariffs for guaranteed basic volume and the remaining approximately HK$19.2 million was attributable to tariffs for non-guaranteed additional volume and recycle water supply operation; (ii) for the year ended 31 December 2016, out of approximately HK$92.8 million of revenue from wastewater treatment operation services, approximately HK$78.6 million was derived from and attributable to tariffs for guaranteed basic volume and the remaining approximately HK$14.2 million was attributable to tariffs for non-guaranteed additional volume and recycle water supply operation; (iii) for the year ended 31 December 2017, out of approximately HK$82.0 million of revenue from wastewater treatment operation services, approximately HK$66.2 million was derived from and attributable to tariffs for guaranteed basic volume and the remaining approximately HK$15.8 million was attributable to tariffs for non-guaranteed additional volume and recycle water supply operation; and

(iv) for the four months ended 30 April 2018, out of approximately HK$43.6 million of revenue from wastewater treatment operation services, approximately HK$31.7 million was derived from and attributable to tariffs for guaranteed basic volume and the remaining approximately HK$11.9 million was attributable to tariffs for non-guaranteed additional volume and recycle water supply operation.

The following table sets forth the amount of our revenue from our wastewater operation services contributed by each of the Wastewater Treatment Plants during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Wastewater Treatment Plants:					
— Plant 1	19,370	18,762	18,735	5,540	7,076
— Plant 2	12,629	12,204	15,157	4,160	14,201
— Plant 3	30,091	44,918	32,401	12,465	11,858
— Plant 4	17,403	16,876	15,725	5,483	10,453
Total revenue from wastewater treatment operation services and recycle water supply operation services	79,493	92,760	82,018	27,648	43,588

Note: revenue derived from recycle water supply operation services during the Track Record Period was related to Plant 1 and Plant 3

The following table sets forth the volume of wastewater treated by each of the Wastewater Treatment Plants during the Track Record Period:

	Year ended 31 December 2015					Year ended 31 December 2016					Year ended 31 December 2017					
Wastewater Treatment Plants	**Average volume of wastewater treated** *(Note 1) (A) (thousand m^3/day)*	**Guaranteed daily basic volume of wastewater treated** *(Note 1) (B) (thousand m^3/day)*	**Additional volume in excess of the basic volume treated** *(Note 1) (A)–(B) (thousand m^3/day)*	**Tariff** *(RMB)* *Basic*	*Additional (Note 2)*	**Average volume of wastewater treated** *(Note 1) (A) (thousand m^3/day)*	**Guaranteed daily basic volume of wastewater treated** *(Note 1) (B) (thousand m^3/day)*	**Additional volume in excess of the basic volume treated** *(Note 1) (A)–(B) (thousand m^3/day)*	**Tariff** *(RMB)* *Basic*	*Additional (Note 2)*	**Average volume of wastewater treated** *(Note 1) (A) (thousand m^3/day)*	**Guaranteed daily basic volume of wastewater treated** *(Note 1) (B) (thousand m^3/day)*	**Additional volume in excess of the basic volume treated** *(Note 1) (A)–(B) (thousand m^3/day)*	**Tariff** *(RMB)* *Basic*	*Additional (Note 2)*	**Average utilisation during the three years ended 31 December 2015, 2016 and 2017** *(Note 3)*
Plant 1	98	83	15	0.8	0.48	93	87	6	0.854	0.5124	90	90	0	0.854	0.5124	approximately 93.6%
Plant 2	61	42	19	0.8	0.48	66	43	23	0.854	0.5124	67	41	26	0.854/2.0 *(Note 7)*	0.5124/2.0 *(Note 7)*	prior to Phase I expansion: approximately 128.7% *(Note 9)*; and after completion of Phase I expansion: approximately 96.8%
Plant 3	55/65	42/70 *(Note 4)*	13/0 *(Note 5 and Note 8)*	0.80/2.42 *(Note 6)*	0.48/1.45 *(Note 6)*	66	70	0 *(Note 8)*	2.42	1.45	69	73	0 *(Note 8)*	2.42	1.45	prior to expansion: approximately 110.6% *(Note 9)*; and after completion of expansion: approximately 67.1%
Plant 4	112	83	29	0.8	0.48	108	87	21	0.854	0.5124	104	90	14	0.854	0.5124	approximately 107.8% *(Note 9)*

	Four months ended 30 April 2018					
	Average volume of wastewater treated *(Note 1) (A) (thousand m^3/day)*	**Guaranteed daily basic volume of wastewater treated** *(Note 1) (B) (thousand m^3/day)*	**Additional volume in excess of the basic volume treated** *(Note 1) (A)–(B) (thousand m^3/day)*	**Tariff** *(RMB)* *Basic*	*Additional (Note 2)*	**Average utilisation during the four months ended 30 April 2018** *(Note 3)*
Plant 1	87	93	0 *(Note 8)*	0.872	0.5232	approximately 86.6%
Plant 2	79	47	32	2	2 *(Note 7)*	approximately 105.9% *(Note 9)*
Plant 3	60	75	0 *(Note 8)*	2.489	1.4934	approximately 60.1%
Plant 4	98	93	5	2	2 *(Note 10)*	approximately 97.7%

Notes:

(1) Rounded to the nearest thousand cubic metres.

(2) Addition tariff is calculated based on 60% of the basic tariff, unless otherwise stated.

(3) Utilisation rate of our wastewater treatment facilities was calculated by dividing the actual volume of wastewater treated by the total designed capacity taking into consideration the expansion in capacity completed from time to time.

(4) Represents the average guaranteed daily basic volume of wastewater treated prior to and after the completion of the expansion works on Plant 3 in July 2015.

(5) Represents the additional volume in excess of the basic volume treated prior to and after the completion of the expansion works on Plant 3 in July 2015.

(6) Represents the tariff prior to and after the completion of the expansion works on Plant 3 in July 2015.

(7) The wastewater treatment service fees of Plant 2 is calculated based on an interim tariff of RMB2.0 effective from December 2017, which is applicable to both the basic volume and any additional volume, until the approval by our customer of tariff revision for Plant 2 in relation to the completion of the relevant upgrading and expansion works.

(8) Plant 1 and Plant 3 processed all of the wastewater intake during the relevant period, respectively, being lower than the respective guaranteed daily basic volume, as such we were entitled to the basic tariff at the guaranteed daily basic volume at the relevant time pursuant to the Concession Agreement.

(9) For Plant 2 and Plant 3, the average utilisation rates during the three years ended 31 December 2017 prior to the completion of Phase I of Plant 2 expansion and the expansion works for Plant 3 were higher than 100%, which was mainly due to the supply of wastewater to Plant 2 and Plant 3 at that time being higher than their respective original designed capacity before the relevant expansion works, while there is an extra buffer in the construction design of each of our facilities intended to be used as a backup capacity to reduce downtime and allowed us to cope with some unpredictable increase in the amount of wastewater supplied to our facilities from time to time beyond 100% of the designed capacity. Upon completion of the Phase I of Plant 2 expansion and the expansion works for Plant 3, the average utilisation rates had resumed to below 100%. Thereafter during the four months ended 30 April 2018, due to the higher supply of wastewater to Plant 2 which sometimes exceeded its designed capacity, the average utilisation rate for Plant 2 during such period had gone up to more than 100%. It is expected that the utilisation rate for Plant 2 will resume to below 100% after the completion of its Phase II expansion.

The average utilisation rate for Plant 4 during the three years ended 31 December 2017 also exceeded 100% due to the same reason as stated above for Plant 2 and Plant 3, and it is expected that the utilisation rate for Plant 4 will decrease to below 100% upon the completion of its contemplated expansion works.

For further details of the utilisation rates of each of our Wastewater Treatment Plants during the Track Record Period, please refer to the summary table and the footnotes in "Business — Our Existing Wastewater Treatment Facilities" in this document.

(10) The wastewater treatment service fees of Plant 4 is calculated based on an interim tariff of RMB2.0 effective from January 2018, which is applicable to both the basic volume and any additional volume, until the approval by our customer of tariff revision for Plant 4 in relation to the completion of the relevant upgrading and expansion works.

The average volume of wastewater treated per day for our Wastewater Treatment Plants ranged from (i) approximately 59,000 cubic metres per day (Plant 3) to approximately 112,000 cubic metres per day (Plant 4) for the year ended 31 December 2015; (ii) approximately 66,000 cubic metres per day (Plant 2 and Plant 3) to approximately 108,000 cubic metres per day (Plant 4) for the year ended 31 December 2016; and (iii) approximately 67,000 cubic metres per day (Plant 2) to approximately 104,000 cubic metres per day (Plant 4) for the year ended 31 December 2017; and (iv) approximately 60,000 cubic metres per day (Plant 3) to approximately 98,000 cubic metres per day (Plant 4) for the four months ended 30 April 2018. For Plant 2 and Plant 3, the average utilisation rates during the Track Record Period prior to the completion of Phase I of Plant 2 expansion and the expansion works for Plant 3 were larger than 100%, which was mainly due to the supply of wastewater to Plant 2 and Plant 3 at that time being higher than their respective original designed capacity before the relevant expansion works, while there is an extra buffer in the construction design of each of our facilities intended to be used as a backup capacity to reduce downtime and which actually allowed us to cope with some unpredictable increase in the amount of wastewater supplied to our facilities from time to time beyond 100% of the designed capacity. Upon completion of the Phase I expansion works for Plant 2 and the expansion works for Plant 3, the average utilisation rates had resumed to below 100%.

The guaranteed daily basic volume of our Wastewater Treatment Plants ranged from (i) approximately 42,000 cubic metres per day (Plant 2) to approximately 83,000 cubic metres per day (Plant 1 and Plant 4) for the year ended 31 December 2015; (ii) approximately 43,000 cubic metres per day (Plant 2) to approximately 87,000 cubic metres per day (Plant 1 and Plant 4) for the year ended 31 December 2016; and (iii) approximately 41,000 cubic metres per day (Plant 2) to approximately 90,000 cubic metres per day (Plant 1 and Plant 4) for the year ended 31 December 2017; and (iv) approximately 47,000 cubic metres per day (Plant 2) to approximately 93,000 cubic metres per day (Plant 1 and Plant 4) for the four months ended 30 April 2018. Upon the completion of Plant 3 expansion work, the guaranteed daily basic volume for was increased to 70,000 cubic metres per day in July 2015.

For the guaranteed daily basic volume, we are entitled to receive a service fee of the guaranteed daily basic volume at the basic tariff, which ranged from (i) a minimum of RMB0.8 to a maximum of RMB2.42 for the year ended 31 December 2015; (ii) a minimum of RMB0.854 to a maximum of RMB2.42 for the year ended 31 December 2016; (iii) a minimum of RMB0.854 to a maximum of RMB2.42 for the year ended 31 December 2017; and (iv) a minimum of RMB0.872 to a maximum of RMB2.489 for the four months ended 30 April 2018. As indicated in the table, after the completion of the expansion works of Plant 3, Phase I Plant 2 and Plant 4 in July 2015, December 2017 and December 2017, the basic tariff was increased to RMB2.42, RMB2.0 and RMB2.0, respectively.

For further details on the capacity of each wastewater treatment plant as at the Latest Practicable Date, please refer to the table as set out under the section headed "Business — Our existing wastewater treatment facilities" in this document.

Finance income from service concession arrangement

Finance income from service concession arrangement represented imputed interest income and contributed approximately HK$78.7 million, HK$80.9 million, HK$86.0 million and HK$32.5 million, representing approximately 31.4%, 39.0%, 23.5% and 23.5% of our total revenue for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively. Financial income was based on the interest rate of 6.75% determined by JLL with reference to the yield from the PRC government bonds, local municipal bonds as well as city investment bonds (城投債).

Cost of sales

During the Track Record Period, our cost of sales mainly consisted of (i) construction costs; (ii) costs of wastewater treatment operation and recycle water supply operation services; (iii) direct labour costs; (iv) amortisation of intangible assets; and (v) repair and maintenance costs.

The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
							(unaudited)			
Cost of sales:										
Construction costs	82,949	60.5	29,679	31.1	179,317	76.8	7,662	28.5	55,951	69.2
Costs of wastewater treatment operation and recycle water supply operation services	37,646	27.4	49,910	52.3	41,169	17.6	14,103	52.5	19,531	24.2
Employee benefit expenses	10,861	7.9	10,189	10.7	8,458	3.6	3,429	12.8	4,048	5.0
Amortisation of intangible assets	1,869	1.4	1,950	2.0	2,008	0.9	639	2.4	863	1.1
Repair and maintenance costs	2,580	1.9	3,142	3.3	2,451	1.0	969	3.6	361	0.4
Others *(note)*	1,255	0.9	580	0.6	194	0.1	57	0.2	118	0.1
Total Cost of sales	137,160	100.0	95,450	100.0	233,597	100.0	26,859	100.0	80,872	100.0

Note: Others included depreciation of property, plant and equipment, legal and professional fee and other expenses

For the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, we recorded cost of sales of approximately HK$137.2 million, HK$95.5 million, HK$233.6 million and HK$80.9 million, respectively, representing approximately 54.7%, 46.0%, 63.8% and 58.4% of our total revenue over the same period, respectively.

During the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, construction costs represented costs for the upgrading and/or expansion works for Wastewater Treatment Plants, in connection with the Concession Agreement, which amounted approximately HK$82.9 million, HK$29.7 million, HK$179.3 million and HK$56.0 million, representing approximately 60.5%, 31.1%, 76.8% and 69.2% of our total cost of sales, respectively.

Costs of wastewater treatment operation and recycle water supply operation services primarily consisted of utility costs, costs of chemicals, sludge dewatering and removal costs and other costs associated with our wastewater treatment operation services, which amounted approximately HK$37.6 million, HK$49.9 million, HK$41.2 million and HK$19.5 million, representing approximately 27.4%, 52.3%, 17.6% and 24.2% of our total cost of sales for the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

The remaining cost of sales mainly consisted of (i) employee benefit expenses, being direct labour costs related to salaries and other employee related expenses; (ii) amortisation of intangible assets; (iii) repair and maintenance costs; and (iv) others, which amounted to approximately HK$16.6 million, HK$15.9 million, HK$13.1 million and HK$5.4 million, representing approximately 12.1%, 16.6%, 5.6% and 6.6% of our total cost of sales for the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

Sensitivity analysis

The assumptions used in the sensitivity analysis are highly judgemental and interrelated, the change of one key assumption will trigger corresponding changes in other assumptions. The following sensitivity analysis illustrates the impact of hypothetical changes to the operating costs during the Track Record Period, based on increase/decrease in inflation of operating costs of 0.5% with reference to the historical fluctuation of inflation rate in the PRC:

	Corresponding change in profit after tax			
				Four months ended
Increase/(decrease) in inflation of operating costs	**Year ended 31 December**			**30 April**
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
+0.5%	5,868	6,297	7,023	2,755
–0.5%	(5,046)	(5,459)	(6,136)	(2,426)

Gross profit and gross profit margin

For the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, our gross profit amounted to approximately HK$113.4 million, HK$112.0 million, HK$132.8 million and HK$57.5 million, respectively, and our overall gross profit margin was approximately 45.3%, 54.0%, 36.2% and 41.6%, respectively.

The following table sets out the gross profit and gross profit margin attributable to the respective Wastewater Treatment Plants derived from the provision of wastewater treatment construction services, wastewater treatment operation services and recycle water supply operation services:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
							(unaudited)			
Wastewater Treatment Plants:										
— Plant 1	5,649	29.2	5,264	26.5	9,188	14.3	1,774	24.5	7,674	11.5
— Plant 2	2,935	23.2	4,632	14.8	15,047	13.3	1,677	16.2	8,199	52.8
— Plant 3	15,339	12.8	9,945	23.9	9,341	28.8	4,141	33.2	4,989	42.1
— Plant 4	5,526	29.6	6,197	19.1	9,167	13.2	1,625	27.0	3,401	30.5

In connection with our gross profit derived from each of the Wastewater Treatment Plants for the provision of our wastewater treatment construction services and our wastewater treatment operation services, the fluctuations during the Track Record Period were primarily attributable to variations in revenue mix, construction costs and operation costs. In addition, the gross profit margins for upgrading and expansion services under our concession arrangement were generally lower than the gross profit margins derived from the provision of wastewater treatment operation services. During the Track Record Period, as advised by JLL, the construction profit margins for each of the Wastewater Treatment Plants in relation to the upgrading and expansion services under our concession arrangement was approximately 10.0% and the operating profit margins derived from the provision of wastewater treatment operation services for each of the Wastewater Treatment Plants was approximately 39.0%. In view of the above, in particular, the construction margin was notably lower than the operating margin, for a given financial year during the Track Record Period whereby the revenue contribution from our wastewater treatment construction services is significantly higher than the revenue contribution from our wastewater treatment operation services, without taking into account other factors, our gross profit margin derived from the Wastewater Treatment Plants is likely to be comparatively lower as a result.

As advised by JLL, as the Wastewater Treatment Plants are all under the same concession arrangement governed by the Concession Agreement, the respective construction profit margins for each of the Wastewater Treatment Plants in relation to the upgrading and expansion services under our concession arrangement were the same at approximately 10.0%; and the respective operating profit margins for each of the Wastewater Treatment Plants in relation to our wastewater treatment operation services were the same at approximately 39.0%. In determining the construction margins for the wastewater treatment construction services, and the operating margins for wastewater treatment operation services, JLL took into consideration the relevant margins of comparable companies listed in the PRC and Hong Kong. These comparable companies were either listed on the PRC or Hong Kong

stock exchange, and principally operated in the wastewater treatment industry through BOT and/or TOT models in the PRC. For the purpose IFRIC 12 Service Concession Arrangements, the adopted construction margin and operation margin, as advised by JLL, are determined with reference to the range and the median of the construction margins and the operation margins of these comparable companies.

During the Track Record Period, the upgrading and expansion works performed on our Wastewater Treatment Plants primarily involved the construction of addition relevant facilities and/or upgrading works on our existing facilities. In general, save for a period of temporary suspension to Plant 1's wastewater treatment operations attributable to the upgrading works for Plant 1, our Wastewater Treatment Plants maintained normal wastewater treatment operations while the relevant upgrading and expansion works were being carried out, therefore the extent and frequency of disruption to our wastewater treatment operations directly attributable to the upgrading and expansion works carried out during the Track Record Period and up to the Latest Practicable Date was not material. For further details, please refer to the paragraph headed "Business — Status of wastewater treatment operations during upgrading and expansion works" in this document.

During the four months ended 30 April 2018, (i) the relatively low gross profit margin of Plant 1 was mainly attributable to the substantial construction works being undertaken during the period; (ii) the relatively high gross profit margin of Plant 2 was primarily attributable to the combined effects of (a) the average volume of wastewater treated by Plant 2 of approximately 79,000 cubic metres per day is notably higher than the guaranteed daily basic volume of wastewater treated of approximately 47,000 cubic metres per day; and (b) wastewater treatment service fees of Plant 2 being calculated based on an interim tariff of RMB2.0, effective from December 2017, is applicable to both the basic volume and any additional volume, until the approval by our customer of tariff revision for Plant 2 in relation to the completion of the relevant upgrading and expansion works; and (iii) the relatively high gross profit margin of Plant 3 was primarily attributable to (a) no construction revenue was derived from Plant 3 during the period; and (b) revenue of approximately HK$2.1 million was derived from recycle water supply operation services.

For further details of our gross profit and gross profit margin during the Track Record Period, please refer to the section headed "Financial Information — Period to period comparison of results of operations" in this document.

Other income

Other income primarily consisted of interest income, VAT refund and others. The following table sets forth a breakdown of our other income during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
							(unaudited)			
Interest income	296	8.8	429	17.1	641	22.5	148	29.0	347	45.6
VAT refund *(note)*	1,970	58.6	1,795	71.4	1,944	68.3	284	55.7	345	45.3
Others	1,094	32.6	290	11.5	262	9.2	78	15.3	69	9.1
Total Other Income	3,360	100.0	2,514	100.0	2,847	100.0	510	100.0	761	100.0

Note: 70% of the VAT paid by our Group was refunded according to the CaiShui [2015] No. 78 during the Track Record Period. In addition, our Group was eligible for compensation for the remaining 30% of the VAT payment from Yinchuan Construction Bureau under the Concession Agreement during the Track Record Period. Hence, our Group recognised these VAT refund attributable to intangible assets as other income during the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

For the year ended 31 December 2015, VAT refund and others were the largest two items under the other income balance, which in aggregate, contributed to approximately HK$3.1 million. For each of the two years ended 31 December 2016 and 2017 and the four months ended 30 April 2018, VAT refund and interest income were the largest two items under the other income balance, which in aggregate, contributed to approximately HK$2.2 million, HK$2.6 million and HK$0.7 million, respectively.

Other gains and losses

Other gains and losses primarily consisted of net gains on disposal of property, plant and equipment, net fair value gains on financial assets at fair value through profit or loss, net foreign exchange gains/(losses) and others. The following table sets forth a breakdown of our other gains and losses during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
							(unaudited)			
Net gains on disposal of property, plant and equipment	52	1.5	118	12.0	7	(0.3)	—	—	—	—
Net fair value gains on financial assets at fair value through profit or loss	1,401	41.7	1,540	156.8	913	(29.6)	675	(62.0)	476	(25.4)
Net foreign exchange gains/(losses)	1,917	57.1	(666)	(67.8)	(4,001)	129.8	(1,761)	161.7	(2,453)	130.8
Others *(note)*	(12)	(0.3)	(10)	(1)	(2)	0.1	(3)	0.3	101	(5.4)
Total Other gains/(losses)	3,358	100.0	982	100.0	(3,083)	100.0	(1,089)	100.0	(1,876)	100.0

Note: Others includes gain on deregistration of a subsidiary and other gains and losses.

For the two years ended 31 December 2015 and 2016, on a net basis, other gains amounted to approximately HK$3.4 million and HK$1.0 million, respectively, and for the year ended 31 December 2017 and the four months ended 30 April 2018, other losses (on a net basis), amounted to approximately HK$3.1 million and HK$1.9 million. During the Track Record Period, (i) the net fair value gains on financial assets at fair value through profit or loss; and (ii) the net foreign exchange gains/(losses), primarily related to the balance due to Taliworks Corporation Berhad as at 31 December 2015 and due to LGB (HK) as at 31 December 2016 and 2017 and 30 April 2018, respectively, which were equity financing provided to our Group in foreign currencies such as US$, SG$, RM, RMB and HK$, were the two significant items under the other gains and losses balance.

General and administrative expenses

During the Track Record Period, administrative expenses primarily consisted of (i) employee benefit expenses, primarily being salaries and staff costs; (ii) travelling expenses; (iii) legal and professional fees; (iv) office expenses; (v) rental expenses; and (vi) general expenses. In addition to the above, during the four months ended 30 April 2018, the administrative expenses also included [REDACTED] expenses.

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Employee benefit expenses	3,961	46.9	4,726	47.7	5,364	53.5	2,262	62.6	2,260	18.6
Travelling and transportation expenses	1,530	18.1	2,416	24.3	2,203	22.0	533	14.7	381	3.1
Legal and professional fees	680	8.0	800	8.1	56	0.6	9	0.2	18	0.2
Office expenses	571	6.8	505	5.1	651	6.5	239	6.6	203	1.7
Rental expenses	344	4.1	333	3.3	339	3.4	109	3.0	123	1.0
[REDACTED] expenses	—	—	—	—	—	—	—	—	8,374	69.0
General expenses	1,364	16.1	1,138	11.5	1,404	14.0	465	12.9	781	6.4
Total General and Administrative Expenses	8,450	100.0	9,918	100.0	10,017	100.0	3,617	100.0	12,140	100.0

General and administrative expenses, excluding [REDACTED] expenses, amounted to approximately HK$8.5 million, HK$9.9 million, HK$10.0 million and HK$3.8 million for the three years ended 31 December 2015, 2016, 2017 and the four months ended 30 April 2018, respectively, which accounted for approximately 3.4%, 4.8%, 2.7% and 2.7% of our total revenue during the respective periods. The largest two items under general and administrative expenses, excluding [REDACTED] expenses, were (i) employee benefit expenses; and (ii) travelling and transportation expenses, which in aggregate, amounted to approximately HK$5.5 million, HK$7.1 million and HK$7.6 million, respectively. For the four months ended 30 April 2018, the largest two items under general and administrative expenses, excluding [REDACTED] expenses, were (i) employee benefit expenses; and (ii) general expenses, which in aggregate, amounted to approximately HK$3.0 million.

For further details on [REDACTED] expenses, of which approximately HK$[REDACTED] was recognised during the four months ended 30 April 2018, please refer to the paragraph headed "[REDACTED] Expenses" in this section of the document.

The remaining balance of general and administrative expenses mainly consisted of legal and professional fees, office expenses, rental expenses and general expenses.

Finance costs

Our finance costs of approximately HK$50.8 million, HK$42.8 million, HK$42.0 million and HK$14.9 million for the three years ended 31 December 2015, 2016, 2017 and the four months ended 30 April 2018 respectively, mainly consisted of (i) interest expenses on borrowings after deduction of interest capitalised as intangible assets; and (ii) interest expenses on loans from intermediate holding company. As at each of the year ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, the annual interest rates for our borrowings were approximately 5.5% to 7.2%, approximately 5.0% to 6.5%, approximately 5.0% to 5.9% and approximately 5.0% to 5.9%, respectively. Our Group had no bank overdrafts as at 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018.

INCOME TAX EXPENSES

Our Group recorded income tax expense of approximately HK$15.7 million, HK$17.2 million, HK$21.7 million and HK$10.0 million for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively.

The following table sets forth a breakdown of our Group's income tax expenses, reconciled to the profit before taxation, during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before income tax	60,794	62,729	80,559	19,456	29,362
Taxation at an applicable rate of 25%	15,199	15,682	20,140	4,864	7,341
Difference arising from different tax jurisdiction	(94)	153	525	221	258
Incomes not subject to income tax	(266)	(57)	(1)	—	(225)
Expenses not deductible for tax purposes	399	642	990	513	2,600
Tax losses not recognised	530	754	43	74	—
Others	(27)	—	(38)	—	—
Income tax expense	15,741	17,174	21,659	5,672	9,974
Effective tax rate	25.9%	27.4%	26.9%	29.2%	34.0%

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had no material dispute or unresolved tax issues with the relevant tax authorities.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Four months ended 30 April 2018 compared with four months ended 30 April 2017

Revenue

Our revenue increased from approximately HK$63.8 million for the four months ended 30 April 2017 to approximately HK$138.4 million for the four months ended 30 April 2018, representing a period-on-period increase of approximately HK$74.6 million or approximately 116.8%, which was primarily attributable to the increase in revenue derived from our wastewater treatment construction services, further analysis of which is set out below:

- revenue derived from our wastewater treatment construction services increased from approximately HK$8.4 million for the four months ended 30 April 2017 to approximately HK$61.5 million for the four months 30 April 2018, representing a period-on-period increase of approximately HK$53.1 million or approximately 632.1%. Our revenue from wastewater treatment construction services for the four months ended 30 April 2018 was primarily attributable to the upgrading works related to Plant 1 involving the improvement in wastewater treatment standard from Class II to Class IA, which is expected to be completed by the end of 2018;

- revenue derived from our wastewater treatment operation services increased from approximately HK$26.3 million for the four months ended 30 April 2017 to approximately HK$41.5 million for the four months 30 April 2018, representing a period-on-period increase of approximately HK$15.2 million or approximately 57.8%, such increase was primarily attributable to the increased tariff for Plant 2 and Plant 4, of which our wastewater treatment service fees are calculated based on an interim tariff of RMB2.0 per cubic meter effective from December 2017 and January 2018, respectively, which is applicable to both the basic volume and any additional volume, until the approval by our customer of the respective tariff revision for Plant 2 and Plant 4 in relation to the completion of the relevant upgrading and expansion works;

- revenue derived from our finance income from service concession arrangement increased from approximately HK$27.4 million for the four months ended 30 April 2017 to approximately HK$32.5 million for the four months ended 30 April 2018, representing a period-on-period increase of approximately HK$5.1 million or approximately 18.6%, such increase was primarily attributable to the increase in receivables under the service concession arrangement mainly as a result of the upgrading and expansion works completed by our Group; and

- the remaining revenue was primarily attributable to our recycle water supply operation services and management fees from related companies, which in aggregate, amounted to approximately HK$1.7 million and HK$2.9 million for the four months ended 30 April 2017 and 2018, respectively.

Cost of sales

Our cost of sales increased from approximately HK$26.9 million for the four months ended 30 April 2017 to approximately HK$80.9 million for the four months 30 April 2018, representing a period-on-period increase of approximately HK$54.0 million or approximately 200.7%, which was primarily attributable to the significant increase in construction costs, further analysis of which is set out below:

- construction costs increased from approximately HK$7.7 million for the four months ended 30 April 2017 to approximately HK$56.0 million for the four months ended 30 April 2018, representing an increase of approximately HK$48.3 million or approximately 627.3%. The construction costs recorded during the four months ended 30 April 2018 was mainly attributable to the construction costs incurred for the upgrading works related to Plant 1 involving the improvement in wastewater treatment standard from Class II to Class IA, which is expected to be completed by the end of 2018;

- costs of wastewater treatment operation and recycle water supply operation services increased approximately HK$5.4 million or approximately 38.3%, from approximately HK$14.1 million for the four months ended 30 April 2017 to approximately HK$19.5 million for the four months ended 30 April 2018. Such increase was mainly attributable to our increase in costs, in particular, chemicals costs and utility costs, following the completion of the Phase I of Plant 2 expansion and Plant 4 upgrade in December 2017; and

- the remaining cost of sales recorded an increase from approximately HK$5.1 million for the four months ended 30 April 2017 to approximately HK$5.4 million for the four months ended 30 April 2018, which was primarily related to a period-on-period increase of approximately HK$0.6 million in employee benefit expenses.

Gross profit and gross profit margin

Our gross profit increased from approximately HK$37.0 million for the four months ended 30 April 2017 to approximately HK$57.5 million for the four months ended 30 April 2018, representing a period-on-period increase of approximately HK$20.5 million or approximately 55.4%, which was primarily attributable to the increase in revenue derived from our wastewater treatment construction services during the four months ended 30 April 2018. As our revenue composition during the respective period under review varied, our gross profit margin decreased from approximately 57.9% for the four months ended 30 April 2017 to approximately 41.6% for the four months ended 30 April 2018, further details of which are set out below:

- gross profit derived from our wastewater treatment construction services, our wastewater treatment operation services and our recycle water supply operation services, amounted to approximately HK$9.2 million and HK$24.3 million for the four months ended 30 April 2017 and 2018, respectively;

- as the gross profit margin for our upgrading and expansion services under the Concession Agreement, which contributed approximately 44.5% of our revenue for the four months ended 30 April 2018 (four months ended 30 April 2017: approximately 13.2%), were lower than our gross profit margin derived from the provision of wastewater treatment operation services, which contributed approximately 30.0% of our revenue for the four months ended 30 April 2018 (four months ended 30 April 2017: approximately 41.2%);

- during the four months ended 30 April 2018, the gross profit derived from our upgrading and expansion services under the Concession Agreement were mainly related to the upgrading works related to Plant 1 involving the improvement in wastewater treatment standard from Class II to Class IA; and

- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK$27.4 million and HK$32.5 million for the four months ended 30 April 2017 and 2018, respectively.

Other income

Other income, which mainly comprised interest income and VAT refund, was largely stable at approximately HK$0.5 million and HK$0.8 million for the 30 April 2017 and 2018, respectively.

Other gains and losses

Our Group recorded other losses of approximately HK$1.1 million and HK$1.9 million for the four months ended 30 April 2017 and 2018, respectively, which was primarily related to the net effect of (i) the net foreign exchange losses of approximately HK$1.8 million and HK$2.5 million, primarily related to the balance due to LGB (HK) as at 30 April 2017 and 2018, which were equity financing provided to our Group in foreign currencies such as US$, SG$, RM, RMB and HK$; and (ii) the net fair value gains on financial assets at fair value through profit or loss of approximately HK$0.7 million and HK$0.5 million, for the four months ended 30 April 2017 and 2018, respectively.

General and administrative expenses

General and administrative expenses, excluding the [REDACTED] expenses of approximately HK$8.4 million recognised during the four months ended 30 April 2018, was largely stable at approximately HK$3.6 million and HK$3.8 million for the four months period ended 30 April 2017 and 2018, respectively. The largest expense item, excluding [REDACTED] expenses, was employee benefit expenses, which amounted to approximately HK$2.3 million and HK$2.3 million the four months period ended 30 April 2017 and 2018, respectively.

Finance costs

Finance costs increased by approximately HK$1.6 million, or approximately 12.0%, to approximately HK$14.9 million for the four months ended 30 April 2018 from approximately HK$13.3 million for the four months ended 30 April 2017. Such increase was mainly attributable to the increase in interest expenses on borrowings of approximately HK$1.6 million.

Income tax expenses

We incurred income tax expense of approximately HK$5.7 million for the four months ended 30 April 2017 and approximately HK$10.0 million for the four months ended 30 April 2018 at effective tax rates of approximately 29.2% and 34.0%, respectively. The increase in effective tax rate was mainly attributable to the increase in non-tax deductible expenses recorded by our Group during the four months ended 30 April 2018.

Profit and total comprehensive income for the year

As a result of the foregoing factors, our profit for the year increased from approximately HK$13.8 million for the four months ended 30 April 2017 to approximately HK$19.4 million for the four months ended 30 April 2018, representing an increase of approximately HK$5.6 million, or approximately 40.7%.

The total comprehensive income for the four months ended 30 April 2017 amounted to approximately HK$17.8 million compared to total comprehensive income for the four months ended 30 April 2018 of approximately HK$44.7 million, the difference between the profit for the year and the total comprehensive income for the respective periods was due to currency translation differences from the translation of RMB being our functional currency to HK$ being our reporting currency.

Year ended 31 December 2017 compared with year ended 31 December 2016

Revenue

Our revenue increased from approximately HK$207.4 million for the year ended 31 December 2016 to approximately HK$366.4 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK$159.0 million or approximately 76.7%, which was primarily attributable to the increase in revenue derived from our wastewater treatment construction services, further analysis of which is set out below:

- revenue derived from our wastewater treatment construction services increased from approximately HK$32.6 million for the year ended 31 December 2016 to approximately HK$197.2 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK$164.6 million or approximately 504.9%, such increase was primarily attributable to the upgrading and expansion works on Phase I of Yinchuan Wastewater Treatment Plant 2 and Yinchuan Wastewater Treatment Plant 4 completed by our Group during the year ended 31 December 2017;

- revenue derived from our finance income from service concession arrangement increased from approximately HK$80.9 million for the year ended 31 December 2016 to approximately HK$86.0 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK$5.1 million or approximately 6.3%, such increase was primarily attributable to the increase in receivables under the service concession arrangement mainly as a result of the upgrading and expansion works completed by our Group;

- the aforesaid increase in revenue was partially offset by a decrease in revenue from our wastewater treatment operation services of approximately HK$11.0 million or approximately 12.6%, from approximately HK$87.6 million for the year ended 31 December 2016 to approximately HK$76.6 million for the year ended 31 December 2017. As our wastewater treatment operation services revenue is recognised on the basis of actual costs with a reasonable profit margin, which was advised by JLL, the decrease was mainly attributable to our reduction in costs, in particular, chemicals costs; and

- the remaining revenue was primarily attributable to our recycle water supply operation services and management fees from related companies, which remained largely stable at approximately HK$6.3 million and HK$6.5 million for the two years ended 31 December 2016 and 2017, respectively.

Cost of sales

Our cost of sales increased from approximately HK$95.5 million for the year ended 31 December 2016 to approximately HK$233.6 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK$138.1 million or approximately 144.6%, which was primarily attributable to the significant increase in construction costs, further analysis of which is set out below:

- construction costs increased from approximately HK$29.7 million for the year ended 31 December 2016 to approximately HK$179.3 million for the year ended 31 December 2017, representing an increase of approximately HK$149.6 million or approximately 503.7%. The construction costs recorded during the year ended 31 December 2017 was mainly attributable to the construction costs incurred for upgrading and expansion of (i) Phase I of Yinchuan Wastewater Treatment Plant 2; and (ii) Yinchuan Wastewater Treatment Plant 4, such construction costs mainly consisted of subcontractors costs and costs of installation of equipments;

- the aforesaid increase in construction costs was partially offset by a decrease in costs of wastewater treatment operation of approximately HK$8.7 million or approximately 17.4%, from approximately HK$49.9 million for the year ended 31 December 2016 to approximately HK$41.2 million for the year ended 31 December 2017. Such decrease was mainly attributable to our reduction in costs, in particular, (i) chemicals costs; and (ii) employee benefit expenses of approximately HK$1.7 million or approximately 16.7%, from approximately HK$10.2 million for the year ended 31 December 2016 to approximately HK$8.5 million for the year ended 31 December 2017, which was mainly attributable to costs for members of staff who were directly deployed for and attributable to the upgrading and expansion works, were classified as construction costs;

- the remaining cost of sales, which consisted primarily of amortisation of intangible assets, repair and maintenance costs and other costs, recorded a slight decrease from approximately HK$5.7 million for the year ended 31 December 2016 to approximately HK$4.7 million for the year ended 31 December 2017, such movement was mainly attributable to a year-on-year decrease of approximately HK$0.7 million in repair and maintenance costs.

Gross profit and gross profit margin

Our gross profit increased from approximately HK$112.0 million for the year ended 31 December 2016 to approximately HK$132.8 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK$20.8 million or approximately 18.6%, which was primarily attributable to the increase in revenue derived from our wastewater treatment construction services during the year ended 31 December 2017. Our gross profit margin decreased from approximately 54.0% for the year ended 31 December 2016 to approximately 36.2% for the year ended 31 December 2017, which were primarily attributable to the change in revenue mix for each of the financial years. Further analysis on the gross profit and gross profit margin is set out below:

- gross profit derived from our wastewater treatment construction services, our wastewater treatment operation services and our recycle water supply operation services, amounted to approximately HK$30.0 million and HK$45.7 million for the year ended 31 December 2016 and 2017, respectively;

- our gross profit margin for the upgrading and expansion services under the Concession Agreement, which contributed approximately 53.8% of our revenue for the year ended 31 December 2017 (2016: approximately 15.8%), were lower than our gross profit margin derived from the provision of wastewater treatment operation services, which contributed approximately 20.9% of our revenue for the year ended 31 December 2017 (2016: approximately 42.2%);

- during the year ended 31 December 2017, the gross profit derived from our upgrading and expansion services under the Concession Agreement were mainly related to Phase I of Yinchuan Wastewater Treatment Plant 2 and Yinchuan Wastewater Treatment Plant 4, respectively; and

- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK$80.9 million and HK$86.0 million for the year ended 31 December 2016 and 2017, respectively.

Other income

Other income increased by approximately HK$0.3 million, or approximately 12.0%, to approximately HK$2.8 million for the year ended 31 December 2017 from approximately HK$2.5 million for the year ended 31 December 2016, such increase was mainly attributable to the increase in VAT refund attributable to intangible assets of approximately HK$0.1 million.

Other gains and losses

Our Group recorded other gains of approximately HK$1.0 million for the year ended 31 December 2016 compared to other losses of approximately HK$3.1 million for the year ended 31 December 2017. Such movement in the other gains and losses balance was mainly attributable to the net effect of (i) the increase in net foreign exchange losses of approximately HK$3.3 million, primarily

related to the balance due to LGB (HK) as at 31 December 2016 and 2017 which were equity financing provided to our Group in foreign currencies such as US$, SG$, RM, RMB and HK$; and (ii) the decrease in net fair value gains on financial assets at fair value through profit or loss of approximately HK$0.6 million.

General and administrative expenses

General and administrative expenses remained largely stable at approximately HK$9.9 million and HK$10.0 million for the year ended 31 December 2016 and 2017, respectively, which was primary attributable to the net effect of (i) an increase in employee benefit expenses of approximately HK$0.6 million; and (ii) a decrease in travelling and transportation expenses and legal and professional fee of approximately HK$0.2 million and HK$0.7 million, respectively.

Finance costs

Finance costs decreased by approximately HK$0.8 million, or approximately 2.0%, to approximately HK$42.0 million for the year ended 31 December 2017 from approximately HK$42.8 million for the year ended 31 December 2016. Such decrease was mainly attributable to the decrease in interest expenses on borrowing of approximately HK$0.7 million, of which approximately HK$0.1 million of interest expenses was capitalised as intangible assets for the year ended 31 December 2017.

Income tax expense

We incurred income tax expense of approximately HK$21.7 million for the year ended 31 December 2017 and approximately HK$17.2 million for the year ended 31 December 2016 at effective tax rates of approximately 26.9% and 27.4%, respectively. The decrease in effective tax rate was mainly attributable to the increase in utilisation of tax losses.

Profit and total comprehensive income for the year

As a result of the foregoing factors, our profit for the year increased from approximately HK$45.6 million for the year ended 31 December 2016 to approximately HK$58.9 million for the year ended 31 December 2017, representing an increase of approximately HK$13.3 million, or approximately 29.2%.

The total comprehensive income for the year ended 31 December 2016 amounted to approximately HK$7.6 million compared to total comprehensive income for the year ended 31 December 2017 of approximately HK$101.2 million, the difference between the profit for the year and the total comprehensive income for the year was due to currency translation differences from the translation of RMB being our functional currency to HK$ being our reporting currency.

Year ended 31 December 2016 compared with year ended 31 December 2015

Our revenue decreased from approximately HK$250.5 million for the year ended 31 December 2015 to approximately HK$207.4 million for the year ended 31 December 2016, representing a year-on-year decrease of approximately HK$43.1 million or approximately 17.2%, which was primarily attributable to the decrease in revenue derived from our wastewater treatment construction services, further analysis of which is set out below:

- revenue derived from our wastewater treatment construction services decreased from approximately HK$91.2 million for the year ended 31 December 2015 to approximately HK$32.6 million for the year ended 31 December 2016, representing a year-on-year decrease of approximately HK$58.6 million or approximately 64.3%, such decrease was primarily attributable to substantial upgrading and expansion works on Yinchuan Wastewater Treatment Plant 3 was completed by our Group during the year ended 31 December 2015;

- our Group also recorded an increase in revenue from our wastewater treatment operation services of approximately HK$14.4 million or approximately 19.6%, from approximately HK$73.2 million for the year ended 31 December 2015 to approximately HK$87.6 million for the year ended 31 December 2016. Such increase was mainly attributable to the completion of the relevant upgrading and expansion works of Yinchuan Wastewater Treatment Plant 3, which increased our Group's chemical and utilities costs;

- revenue derived from our finance income from service concession arrangement, representing the imputed interest, remained stable at approximately HK$78.7 million for the year ended 31 December 2015 and approximately HK$80.9 million for the year ended 31 December 2016, representing a year-on-year increase of approximately HK$2.2 million or approximately 2.8%; and

- the remaining revenue was primarily attributable to our recycle water supply operation services and management fees from a related company, which recorded a decrease from approximately HK$7.4 million for the year ended 31 December 2015 to approximately HK$6.3 million for the year ended 31 December 2016 due to the decrease in revenue from recycle water supply operation services.

Cost of sales

Our cost of sales decreased from approximately HK$137.2 million for the year ended 31 December 2015 to approximately HK$95.5 million for the year ended 31 December 2016, representing a year-on-year decrease of approximately HK$41.7 million or approximately 30.4%, which was primarily attributable to the decrease in construction costs, further analysis of which is set out below:

- construction costs decreased from approximately HK$82.9 million for the year ended 31 December 2015 to approximately HK$29.7 million for the year ended 31 December 2016, representing a decrease of approximately HK$53.2 million or approximately 64.2%. The construction costs recorded during the year ended 31 December 2015 was mainly attributable to substantial upgrading and expansion construction works on Yinchuan Wastewater Treatment Plant 3 were completed by our Group during the year ended 31 December 2015;

- the aforesaid decrease in cost of sales was partially offset by the increase in costs for our wastewater treatment operation, partly due to the relevant designed wastewater treatment capacity increased from 50,000 cubic metres/day to 100,000 cubic metres/day and the water discharge standard improved from Class II to Class IA after the completion of the upgrading and expansion works for Yinchuan Wastewater Treatment Plant 3 during the year ended 31 December 2015. The cost of sales for our wastewater treatment operation services primarily consisted of the chemical costs, utility costs, sludge dewatering and removal treatment, and other related costs, increased from approximately HK$37.6 million for the year ended 31 December 2015 to approximately HK$49.9 million for the year ended 31 December 2016;

- during the year ended 31 December 2015 and 2016, employee benefit expenses under cost of sales remained largely stable at approximately HK$10.9 million and HK$10.2 million, respectively; and

- the remaining cost of sales, which consisted primarily of amortisation of intangible assets, and repair and maintenance costs, also remained stable at approximately HK$5.7 million for each of the years ended 31 December 2015 and 2016, respectively.

Gross profit and gross profit margin

Our gross profit remained largely stable at approximately HK$113.4 million and HK$112.0 million for the year ended 31 December 2015 and 2016, respectively, such year-on-year movement which was primarily attributable to the net effect of the increase in gross profit derived from our wastewater treatment operation services and finance income from service concession arrangement being partially offset by the decrease in gross profit from wastewater treatment construction services during the year ended 31 December 2016.

Our gross profit margin increased from approximately 45.3% for the year ended 31 December 2015 to approximately 54.0% for the year ended 31 December 2016, which were primarily attributable to the change in revenue mix for each of the financial years and the combined effect of the following:

- gross profit derived from our wastewater treatment construction services, our wastewater treatment operation services and our recycle water supply operation services, amounted to approximately HK$33.6 million and HK$30.0 million for the year ended 31 December 2015 and 2016, respectively;

- our gross profit margin for our wastewater treatment operation services, which contributed approximately 42.2% of our revenue for the year ended 31 December 2016 (2015: approximately 29.2%), was higher than the gross profit margin derived from our upgrading and expansion services under the Concession Agreement, which contributed approximately 15.8% of our revenue for the year ended 31 December 2016 (2015: approximately 36.4%);

- attributable to the revenue mix recorded by the respective Wastewater Treatment Plants, in particular, our wastewater treatment construction services revenue decreased year-on-year as substantial of the upgrading and expansion works on Yinchuan Wastewater Treatment Plant 3 was completed by our Group during the year ended 31 December 2015, which was partially offset by our increase in revenue from wastewater treatment operation services for the year ended 31 December 2016; and

- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK$78.7 million and HK$80.9 million for the year ended 31 December 2015 and 2016, respectively.

Other income

Other income decreased by approximately HK$0.9 million to approximately HK$2.5 million for the year ended 31 December 2016 from approximately HK$3.4 million for the year ended 31 December 2015. Such decrease was mainly attributable to our Group recognised an one-off government subsidy for the year ended 31 December 2015 compared to approximately HK$0.6 million for the year ended 31 December 2015.

Other gains and losses

Our Group recorded other gains of approximately HK$3.4 million for the year ended 31 December 2015 compared to approximately HK$1.0 million for the year ended 31 December 2016. The decrease to other gains was mainly due to our Group recorded a net foreign exchange loss of approximately HK$0.7 million for the year ended 31 December 2016 compared to a net foreign exchange gain of approximately HK$1.9 million for the year ended 31 December 2015, primarily due to the balance due to Taliworks Corporation Berhad as at 31 December 2015 and due to LGB (HK) as at 31 December 2016 which were equity financing provided to our Group in foreign currencies such as US$, SG$, RM, RMB and HK$.

General and administrative expenses

General and administrative expenses increased from approximately HK$8.5 million for the year ended 31 December 2015 to approximately HK$9.9 million for the year ended 31 December 2016, which was primary attributable to (i) the increase in employee benefit expenses of approximately HK$0.8 million; and (ii) the increase in travelling and transportation expenses of approximately HK$0.9 million.

Finance costs

Finance costs decreased by approximately HK$8.0 million, or approximately 15.7%, to approximately HK$42.8 million for the year ended 31 December 2016 from approximately HK$50.8 million for the year ended 31 December 2015. Such decrease was mainly attributable to the decrease in borrowings and annual interest rates, which resulted in a decrease in interest expenses on borrowing of approximately HK$8.1 million.

Income tax expense

We incurred income tax expense of approximately HK$15.7 million and HK$17.2 million for the year ended 31 December 2015 and 2016, respectively, at an effective tax rate of approximately 25.9% and 27.4%, respectively. The increase in our effective tax rate was mainly attributable to the combined effect of (i) the increase in utilisation of tax losses; and (ii) the decrease in temporary difference attributable to receivable under service concession arrangement and intangible asset.

Profit and total comprehensive income for the year

As a result of the foregoing factors, our profit for the year remained stable at approximately HK$45.1 million for the year ended 31 December 2015 and approximately HK$45.6 million for the year ended 31 December 2016, representing an increase of approximately HK$0.5 million, or approximately 1.1%.

The total comprehensive income for the year ended 31 December 2015 amounted to approximately HK$18.2 million compared to total comprehensive income for the year ended 31 December 2016 of approximately HK$7.6 million, the difference between the profit for the year and the total comprehensive income for the year was due to currency translation differences from the translation of RMB being our functional currency to HK$ being our reporting currency.

LIQUIDITY AND CAPITAL RESOURCES

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			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Net cash flow from/(used in) operating activities	48,646	41,046	35,709	(271)	(35,542)
Net cash flow from/(used in) investing activities	(83,456)	18,178	(4,872)	125	51,932
Net cash flow from/(used in) financing activities	11,596	(14,259)	16,979	(9,896)	47,859
Cash and cash equivalents at end of year/period	37,972	80,214	130,141	69,005	199,745

Cash flow analysis

The liquidity and level of capital resources of our Group mainly related to initial investments in our Wastewater Treatment Plants and upgrading and expansions of our Wastewater Treatment Plants as well as costs related to the operation and maintenance of our Wastewater Treatment Plants. During the Track Record Period, our Group financed our upgrading and expansion works, working capital and other liquidity requirements principally from cash generated from our operations, bank borrowing, advance from Shareholders and shareholder's equity. Our Directors believe that our Group's operations will be funded with a combination of various sources, including cash generated from our operations, bank borrowings, the net proceeds from the [REDACTED] as well as other external equity and debt financing.

Net cash generated from/used in operating activities

During the Track Record Period, our Group derived our cash inflow from operating activities principally through the receipt of payments for the provision of our wastewater treatment services pursuant to the Concession Agreement. Our cash outflows from operating activities were primarily used for the payment of construction costs, costs of wastewater treatment operation, including utility, and chemicals, employee expenses and other operating costs in relation to our Wastewater Treatment Plants.

For the year ended 31 December 2015, our Group had net cash generated from operating activities of approximately HK$48.6 million, which was largely attributable to the combined effect of (i) operating profit before movements in working capital of approximately HK$103.5 million, comprised primarily of profit before income tax of approximately HK$60.8 million added back finance costs of approximately HK$51.0 million; and (ii) the net working capital outflow of approximately HK$54.8 million, which was primarily attributable to (a) the increase in receivable under service concession arrangement of approximately HK$96.5 million; (b) the increase in trade and other payables of approximately HK$30.0 million; and (c) the decrease in trade and other receivables of approximately HK$16.7 million.

For the year ended 31 December 2016, our Group had net cash generated from operating activities of approximately HK$41.0 million, which was largely attributable to the net effect of (i) comprising of operating profit before movements in working capital of approximately HK$103.1 million, comprised primarily of profit before income tax of approximately HK$62.7 million added back finance costs of approximately HK$42.8 million; and (ii) the net working capital outflow of approximately HK$62.1 million, which was primarily attributable to the increase in receivables under service concession arrangement of approximately HK$77.1 million and the increase in trade and other payables of approximately HK$19.0 million.

For the year ended 31 December 2017, our Group had net cash generated from operating activities of approximately HK$35.7 million, which was largely attributable to the combined effect of (i) operating profit before movements in working capital of approximately HK$108.3 million, comprised primarily of profit before income tax of approximately HK$80.6 million added back finance costs of approximately HK$42.1 million; and (ii) the net working capital outflow of approximately HK$72.6 million which was primarily attributable to (a) the increase in receivables under service concession arrangement of approximately HK$85.5 million; (b) the increase in trade and other payables of approximately HK$45.3 million; and (c) the increase in trade and other receivables of approximately HK$24.5 million.

For the four months ended 30 April 2018, our Group had net cash used in operating activities of approximately HK$35.5 million, which was largely attributable to the combined effect of (i) operating profit before working capital changes of approximately HK$41.1 million, comprised primarily of profit before income tax of approximately HK$29.4 million added back finance costs of approximately HK$14.9 million; and (ii) the net working capital outflow of approximately HK$76.7 million which was primarily attributable to (a) the increase in trade and other receivables of approximately HK$44.1 million which was largely related to the increase in trade receivables of approximately HK$39.8 million as our Group recorded a higher portion of trade receivables aged between 31 to 90 days, based on invoice dates, mainly as a result of longer settlement period from Yinchuan Construction Bureau; and (b) the increase in receivables under service concession arrangement of approximately HK$38.9 million as a result of the tariff payments received by our Group being less that the revenue recognised from our wastewater treatment construction services, our wastewater treatment operation services and finance income from service concession arrangement during the relevant period.

Net cash from/used in investing activities

Our cash flow from investing activities during the Track Record Period primarily consisted of cash utilised on the in intangible assets, concession receivables, as well as cash used for additions and cash generated from proceeds from the disposal of financial assets at fair value through profit or loss.

We recorded net cash used in investing activities amounting to approximately HK$83.4 million for the year ended 31 December 2015, net cash generated from investing activities of approximately HK$18.2 million for the year ended 31 December 2016 and net cash used in investing activities of approximately HK$4.9 million for the year ended 31 December 2017.

The net cash used in investing activities during the year ended 31 December 2015 was primarily attributable to the increase in financial assets at fair value through profit or loss of approximately HK$134.3 million which was partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately HK$50.5 million.

The net cash generated from investing activities during the year ended 31 December 2016 was primarily attributable to the proceeds from disposal of financial assets at fair value through profit or loss of approximately HK$35.8 million was partially offset by the increase in financial assets at fair value through profit or loss of approximately HK$17.9 million.

The net cash used in investing activities during the year ended 31 December 2017 was primarily attributable to the increase in financial assets at fair value through profit or loss of approximately HK35.9 million. The aforesaid cash outflow was partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately HK$31.1 million.

The net cash generated investing activities for four months ended 30 April 2018 was primarily attributable to the proceeds from disposal of financial assets at fair value through profit or loss of approximately HK$51.7 million.

Net cash generated from/used in financing activities

Our cash inflow from financing activities during the Track Record Period primarily consisted of bank borrowings and increase in amount due to LGB (HK). Our cash outflow from financing activities primarily consisted of repayment of bank borrowings and interest paid.

During the year ended 31 December 2015, our net cash generated from financing activities was approximately HK$11.6 million primarily attributable to (i) proceeds from borrowings of approximately HK$94.0 million drawn down during the year; (ii) the repayments of borrowings of approximately HK$34.6 million; and (iii) the interest paid on the external borrowings which amounted to approximately HK$51.0 million.

During the year ended 31 December 2016, our net cash used in financing activities was approximately HK$14.3 million primarily attributable to (i) the repayments of borrowings of approximately HK$35.2 million; (ii) the interest paid on the external borrowings which amounted to approximately HK$42.8 million; and (iii) proceeds from borrowings of approximately HK$62.9 million drawn down during the year.

During the year ended 31 December 2017, our net cash flows generated from financing activities was approximately HK$17.0 million primarily attributable to the net effect of (i) the proceeds from borrowings of approximately HK$47.3 million drawn down during the year; (ii) the increase in amount due to LGB (HK) of approximately HK$55.4 million; (iii) the repayments of borrowings of approximately HK$43.6 million; and (iv) the interest paid on the external borrowings which amounted to approximately HK$42.1 million.

During the four months ended 30 April 2018, our net cash generated from financing activities was approximately HK$47.9 million primarily attributable to (i) cash inflow from changes in amounts due from LGB (HK) of approximately HK$59.1 million; (ii) proceeds from borrowings of approximately HK$17.7 million drawn down during the period; (iii) the repayments of borrowings of approximately HK$14.1 million; (iv) the interest paid on the external borrowings which amounted to approximately HK$14.9 million; and (v) the increase in amount due to LGB (HK) of approximately HK$59.1 million.

WORKING CAPITAL

Taking into account the financial resources of our Group, including the cash flow generated from the operating activities during the Track Record Period, our cash and cash equivalents balance of approximately HK$206.3 million as at 31 August 2018, the existing bank borrowings and banking facilities available to our Group and the estimated net proceeds of the [REDACTED], our Directors are of the opinion, and the Sponsor concurs, that our Group has sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

NET CURRENT LIABILITIES

The following table sets forth the current assets and current liabilities as at 31 December 2015, 2016 and 2017, 30 April 2018 and 31 August 2018.

	As at 31 December			As at	
	2015	2016	2017	30 April 2018	31 August 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current assets					
Inventories	440	269	364	370	—
Trade and other receivables	5,548	10,961	36,126	77,116	49,596
Receivable under service concession arrangement	114,686	236,388	251,359	274,401	261,613
Amounts due from fellow subsidiaries	14,969	13,993	17,962	21,041	6,950
Financial assets at fair value through profit or loss	82,181	58,997	66,873	16,926	—
Restricted bank balances	—	—	6,580	6,816	—
Cash and cash equivalents	37,972	80,214	130,141	199,745	206,335
Total current assets	255,796	400,822	509,405	596,415	524,494
Current liabilities					
Trade and other payables	73,544	85,961	134,062	113,637	136,100
Amount due to Taliworks Corporation Berhad	534,482	—	—	—	—
Amount due to LGB (HK)	—	535,161	595,739	602,284	593,561
Amounts due to fellow subsidiaries	4,771	4,467	4,780	—	—
Amounts due to related companies	6	13	146	—	—
Current portion of long-term borrowings	17,479	26,640	48,960	50,750	51,855
Short-term borrowings	16,716	13,974	19,141	5,787	7,468
Total current liabilities	646,998	666,216	802,828	772,458	788,984
Net current liabilities	391,202	265,394	293,423	176,043	264,490

As at 31 December 2015, we had net current liabilities of approximately HK$391.2 million. The key components of our current liabilities as at such date included amount due to Taliworks Corporation Berhad, trade and other payables, current portion of long-term borrowings as well as short-term borrowings. The key components of our current assets as at such date included receivable under service concession arrangement, financial assets at fair value through profit or loss, cash and cash equivalents as well as amounts due from fellow subsidiaries.

As at 31 December 2016, we had net current liabilities of approximately HK$265.4 million. The key components of our current liabilities as at such date included amount due to LGB (HK), trade and other payables, current portion of long-term borrowings as well as short-term borrowings. The key components of our current assets as at such date included receivable under service concession arrangement, cash and cash equivalents as well as financial assets at fair value through profit or loss.

Our net current liabilities decreased to approximately HK$265.4 million as at 31 December 2016 from approximately HK$391.2 million as at 31 December 2015. This was attributable to the increase in current assets consisted primarily of (i) the increase in receivables under service concession arrangement of approximately HK$121.7 million; and (ii) the increase in cash and cash equivalents by approximately HK$42.2 million. Such increase in current assets was partially offset by (i) the decrease in financial assets at fair value through profit or loss by approximately HK$23.2 million; (ii) the increase in trade and other payables by approximately HK$12.4 million; and (iii) the increase in current portion of long-term borrowings by approximately HK$9.2 million.

As at 31 December 2017, we had net current liabilities of approximately HK$293.4 million. The key components of our current liabilities as at such date included amount due to LGB (HK), trade and other payables, current portion of long-term borrowings as well as short-term borrowings. The key components of our current assets as at such date included receivable under service concession arrangement, cash and cash equivalents, financial assets at fair value through profit or loss, trade and other receivables as well as amounts due from fellow subsidiaries.

Our net current liabilities increased to approximately HK$293.4 million as at 31 December 2017 from approximately HK$265.4 million as at 31 December 2016. This was attributable to the increase in current liabilities consisted primarily of (i) the increase in amount due to LGB (HK) of approximately HK$60.6 million; (ii) the increase in trade and other payables of approximately HK$48.1 million; and (iii) the increase in current portion of long-term borrowing of approximately HK$22.3 million. Such increase in current liabilities was partially offset by (i) the increase in cash and cash equivalents of approximately HK$49.9 million; (ii) the increase in trade and other receivables of approximately HK$25.2 million; and (iii) the increase in receivables under service concession arrangement of approximately HK$15.0 million.

We had net current liabilities of approximately HK$176.0 million and HK$264.5 million as at 30 April 2018 and 31 August 2018, respectively, The key components of our current liabilities as at such dates included amount due to LGB (HK), trade and other payables, as well as current portion of long-term borrowings. The key components of our current assets as at such date included receivable under service concession arrangement, cash and cash equivalents, trade and other receivables, financial assets at fair value through profit or loss as well as amounts due from fellow subsidiaries.

As at 31 August 2018, we had net current liabilities of approximately HK$264.5 million, representing an increase of approximately HK$88.4 million, as compared to that as at 30 April 2018. This was attributable to the decrease in current assets primarily due to the net effect of (i) the decrease in financial assets at fair value through profit and loss by approximately HK$16.9 million; and (ii) decrease in trade and other receivable by approximately HK$27.5 million. Such decrease in current assets was coupled with an increase in current liabilities which was mainly attributable to the increase in trade and other payables of approximately HK$22.5 million.

As per above-mentioned, the net current liabilities recorded as at 31 August 2018 was mainly attributable to the amount due to LGB (HK) of approximately HK$593.6 million, being approximately 71.4% of total current liabilities. Upon our capitalisation of such balances, our Group's current liabilities would improve. The entire balance of the amount due to LGB (HK) has been capitalised before the Latest Practicable Date.

For further details regarding the items affecting our net current liability position during the Track Record Period, please refer to the paragraph headed "Financial Information — Certain selected statements of financial position line items" above.

CERTAIN SELECTED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

Receivable under Concession Arrangement

We accrue (i) financial asset, being receivable under service concession arrangement; (ii) intangible asset; and (iii) a combination of both, where appropriate, throughout the concession period. A financial asset is recognised to the extent that we have an unconditional right to receive tariff payments based on basic volumes stipulated under the Concession Agreement.

Our receivable under service concession arrangement refer to the outstanding receivable arising from (i) the initial consideration for the acquisition of the concession right and underlying assets of the Wastewater Treatment Plants at the relevant time; (ii) revenue from wastewater treatment construction services; (iii) revenue from wastewater treatment operation services; and (iv) finance income from service concession arrangement.

The receivable under service concession arrangement shall be settled by tariff payments to be received by our Group during the concession period. The portion of the receivables under service concession arrangement due within 12 months from the end of the respective financial years are classified as current assets as at that balance sheet date and the remaining balance are classified as non-current assets.

For details regarding our revenue recognition, please refer to the paragraphs headed "Critical accounting policies, estimates and judgement — Service concession arrangement" in this section.

The following table sets forth our receivables under service concession arrangement as at the end of each year during the Track Record Period:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Receivables under service concession arrangement:				
— Non-current	1,111,732	986,953	1,153,512	1,221,986
— Current	114,686	236,388	251,359	274,401
	1,226,418	1,223,341	1,404,871	1,496,387

Our receivable under service concession arrangement classified as (i) current assets were approximately HK$114.7 million, HK$236.4 million, HK$251.4 million and HK$274.4 million as at 31 December 2015, 2016, 2017 and 30 April 2018, respectively; and (ii) non-current assets were approximately HK$1,111.7 million, HK$987.0 million, HK$1,153.5 million and HK$1,222.0 million as at 31 December 2015, 2016, 2017 and 30 April 2018, respectively.

Our total receivable under service concession arrangement amounted to approximately HK$1,226.4 million, HK$1,223.3 million, HK$1,404.9 million as at 31 December 2015, 2016 and 2017, respectively, representing a year-on-year decrease of approximately 0.3%, followed by a year-on-year increase of approximately 14.8%. For the year-on-year movement of the receivables under service concession arrangement from 31 December 2015 to 31 December 2016, such was attributable to the tariff payments received by our Group exceeded revenue recognised from (i) our wastewater treatment construction services; (ii) our wastewater treatment operation services; and (iii) finance income from service concession arrangement, during the year ended 31 December 2016. For the year-on-year movement of the receivables under service concession arrangement from 31 December 2016 to 31 December 2017, such was attributable to the total tariff payments received by our Group being less than the revenue recognised from (i) our wastewater treatment construction services; (ii) our wastewater treatment operation services; and (iii) finance income from service concession arrangement, in particular, revenue from our wastewater treatment construction services amounted to approximately HK$197.2 million for the year ended 31 December 2017, compared to that of approximately HK$32.6 million for the year ended 31 December 2016.

As at 30 April 2018, our total receivable under service concession arrangement increased to approximately HK$1,496.4 million from approximately HK$1,404.9 million as at 31 December 2017, representing an increase of approximately 6.5%. Such increase was attributable to the tariff payments received by our Group exceeded revenue recognised from (i) our wastewater treatment construction services; (ii) our wastewater treatment operation services; and (iii) finance income from service concession arrangement, during the relevant period.

Out of the balance of approximately HK$1,496.4 million receivable under service concession arrangement outstanding as at 30 April 2018, approximately RMB82.6 million (equivalent to approximately HK$103.3 million)* or 5.5% has been settled as at the Latest Practicable Date.

Intangible assets

Our intangible assets primarily represent intangible asset recognised under the service concession arrangement, details of which are set out under "Financial Information — Critical accounting policies, estimates and judgement". The carrying amount of intangible assets amounted to approximately HK$51.2 million, HK$47.7 million, HK$59.5 million and HK$63.9 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. The decrease of the intangible assets balance, being approximately HK$3.5 million, from 31 December 2015 to 31 December 2016 was mainly attributable to currency translation differences of approximately HK$3.2 million. The increase of the intangible assets balance, being approximately HK$11.8 million, from 31 December 2016 to 31 December 2017 was mainly attributable to additions of approximately HK$10.2 million and currency translation differences of approximately HK$3.6 million. The increase of the intangible assets balance, being HK$4.4 million, from 31 December 2017 to 30 April 2018 was mainly attributable to (i) the additions of approximately HK$3.2 million in relation to services concession right; and (ii) currency translation difference of approximately HK$2.1 million.

Cash and bank balances

The following table sets forth cash and bank balances at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current				
Restricted bank balances	4,776	4,472	4,785	4,957
Current				
Restricted bank balances	—	—	6,580	6,816
Cash and cash equivalents	37,972	80,214	130,141	199,745
Total cash and bank balances	42,748	84,686	141,506	211,518

The cash and bank balances were denominated in RMB and US dollars and Singapore dollars. The cash and cash equivalents movement during the Track Record Period were mainly attributable to the net effect of the cash flow from operating activities and cash flow used in investing activities. For further details cash and cash equivalent movement during the Track Record Period, please refer to the paragraph headed "Liquidity and capital resources — Cash flow analysis" in this section above.

* *For the illustration purpose, the exchange rate between the RMB and HK$ is based on 30 April 2018.*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss amounted to approximately HK$82.2 million, HK$59.0 million, HK$66.9 million and HK$16.9 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively, which were unlisted debt investments denominated in RMB. Such unlisted debt investments mainly represented principal protected investments with PRC based financial institutions. The balances carry an expected return of approximately 2.1% to 3.6% per annum and have no fixed maturity, except for the amount of approximately HK$35.9 million as of 31 December 2017 which has expected annual return of approximately 1.0% to 3.7% and has matured during the four months ended 30 April 2018. Changes in fair values of financial assets at fair value through profit or loss were recorded in "other gains/(losses), net" in the combined statements of profit or loss.

We have a prudent treasury policy to manage our investment in financial products. We only invest in low risk financial instruments from reputable commercial banks or financial institutions. Our risk control measures include (i) selection of reputable commercial banks or financial institutions; (ii) selection of financial products with a focus on principal protected feature; and (iii) stringent internal control procedures, such as tiered reporting system and periodic audits. All investment plans are subject to review by general manager or deputy general manager and approval from our chief executive officer. Please also refer to the paragraph headed "Business — Risk management" for further details of our Group's treasury policy.

Other non-current assets

Other non-current assets amounted to approximately HK$46.1 million, HK$43.1 million, HK$46.1 million as at 31 December 2105, 2016, 2017, respectively, of which comprised primarily of the cost incurred for the construction of a wastewater treatment plant of TECO's subsidiary that has ceased to be viable, such amount is recoverable from government after its transfer to government. The year-on-year movement of the construction in progress balance during the Track Record Period was mainly attributable to currency translation differences. As at 30 April 2018, other non-current assets amounted to nil.

Trade and other receivables

Trade and other receivables primarily include (i) trade receivables; (ii) prepayment for construction services; (iii) other receivables; and (iv) prepayments. Trade and other receivables amounted to approximately HK$5.5 million, HK$11.0 million, HK$36.1 million and HK$77.1 million as at 31 December 2015, 2016, 2017 and 30 April 2018, representing an increase of approximately HK$5.5 million, HK$25.1 million and HK$41.0 million. As at 30 April 2018, trade and other receivables mainly consisted of (i) trade receivables of approximately HK$57.0 million; and (ii) other receivables of approximately HK$5.4 million.

In general, our Group usually grants credit periods of 5–20 days to our customers. Aging analysis of gross trade receivables at the respective reporting dates during the Track Record Period, based on the invoice dates are as follows:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–30 days	816	504	17,147	23,619
31–60 days	—	392	19	24,582
61–90 days	—	5	—	8,791
Over 90 days	—	1	2	2
	816	902	17,168	56,994

The following tables sets forth our trade receivable turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
Trade receivable turnover days *(Note)*	2 days	2 days	9 days	32 days

Note: Calculated as the average of the opening and closing balance of trade receivables for the relevant year divided by revenue for the relevant year and multiplied by 365 days for each of the year ended 31 December 2015, 2016 and 2017 and 119 days for the four months ended 30 April 2018.

Trade receivables primarily represent outstanding invoices billed to Yinchuan Construction Bureau for wastewater treatment services and our recycle water customers but not yet settled as at the relevant time. When we issue our bill to Yinchuan Construction Bureau each month, the amount billed will be deducted from the receivable under service concession arrangement and the uncollected portion will be recognised as trade receivables, which will be settled when the cash payment is received from the relevant government authority subsequently. During the Track Record Period, the relevant government authority and/or other customers made periodic payments to our Group in advance for the settlement of our wastewater treatment services or recycle water supply operation services, where relevant, from time to time, which amounted to approximately HK$3.6 million, HK$20.2 million, HK$12,000 and nil as at 31 December 2015, 2016, 2017 and 30 April 2018, respectively. Hence, the aforesaid factors have affected our receivable turnover days during the Track Record Period.

As at 31 December 2015 and 2016, our trade receivable turnover days remained relatively stable at approximately two days, respectively. Our trade receivables turnover days increased from approximately two days as at 31 December 2016 to approximately 9 days as at 31 December 2017, primarily attributable to the factors as mentioned above. As at 30 April 2018, our trade receivable turnover days increased from approximately 9 days to 32 days. Such increase was mainly attributable to the extended payment cycles of our certain customers during the four months ended 30 April 2018.

No impairment allowance of trade receivables is considered necessary because amounts past due but not impaired were related to a number of recycle water customers for whom there is no significant financial difficulty and, based on the past experience of our management, such amounts can be recovered. As at Latest Practicable Date, approximately RMB46.0 million (equivalent to approximately HK$57.0 million)* or 100% of our trade receivables as at 30 April 2018 had been settled.

Amounts due from fellow subsidiaries

The following table sets forth our amounts due from fellow subsidiaries at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from fellow subsidiaries	14,969	13,993	17,962	21,041

As at 31 December 2015, 2016 and 2017 and 30 April 2018, the amounts due from fellow subsidiaries, controlled by our Controlling Shareholder, were unsecured, interest-free and repayable on demand. For details on transactions between related parties, please refer to the paragraph headed "Financial Information — Related party transactions" below. Our Group shall collect all the outstanding amounts due from fellow subsidiaries prior to [REDACTED].

Amounts due to related parties

The following table sets forth amounts due to related parties at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to Taliworks Corporation Berhad	534,482	—	—	—
Amount due to LGB (HK)	—	535,161	595,739	602,284
Amounts due to fellow subsidiaries	4,771	4,467	4,780	—
Amounts due to related companies	6	13	146	—

The amounts due to related parties were unsecured, interest-free and repayable on demand, save for an amount of US$1.6 million which bears interest at a rate of 6.5% per annum due to Taliworks Corporation Berhad as at 31 December 2015, and was subsequently novated to LGB (HK) during the year ended 31 December 2016, and remained outstanding as at 31 December 2016 and 2017 and 30 April 2018, respectively. The fluctuation of the amounts due to related parties during the Track Record

* *For the illustration purpose, the exchange rate between the RMB and HK$ is based on 30 April 2018.*

Period was primarily due to exchange differences and accrued interests from the aforementioned balance of US$1.6 million. The outstanding amounts due to related parties has been capitalised before the Latest Practicable Date. For details on transactions between related parties, please refer to the paragraph headed "Financial Information — Related party transactions" below.

Trade and other payables

Trade payables

The following table sets forth our trade payables at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	30,763	31,750	89,838	84,678

Trade payables primarily relate to utilities and chemicals costs, as well as subcontractor costs in relation to the upgrading and expansion of our Wastewater Treatment Plants as well as outstanding construction payments relating to the upgrading and expansion works of our Wastewater Treatment Plants. The trade payables are non-interest bearing and are typically settled on terms of 30 days. The increase in trade payables as at the year ended 31 December 2017 as compared to as at the year ended 31 December 2016 was primarily due to the increase in the amounts invoiced by our subcontractors and suppliers in relation to the upgrading and expansion works during the year ended 31 December 2017. The decrease in trade payables as at 30 April 2018 as compared to as at the year ended 31 December 2017 was primarily due to the fact that our upgrading and expansion works in Plant 2 and Plant 4 had entered into the course of completion. Approximately RMB29.2 million (equivalent to approximately HK$36.2 million)* of our trade payables as at 30 April 2018 had been settled as at Latest Practicable Date.

Our Directors confirm that our Group did not have any material default in payment of trade payables during the Track Record Period.

* *For the illustration purpose, the exchange rate between the RMB and HK$ is based on 30 April 2018.*

The table below sets forth, as of the dates indicated, the aging analysis of our trade payables based on invoice date:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1–30 days	13,449	4,422	26,364	26,198
31–60 days	1,671	4,090	39,257	1,794
61–90 days	1,637	1,806	2,226	—
Over 90 days	14,006	21,432	21,991	56,686
	30,763	31,750	89,838	84,678

The following table sets forth our trade payable turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
Trade payable turnover days *(Note)*	60 days	120 days	95 days	129 days

Note: Calculated as the average of the opening and closing balance of trade payables for the relevant year divided by cost of sales for the relevant year and multiplied by 365 days for each of the year ended 31 December 2015, 2016 and 2017 and 119 days for the four months ended 30 April 2018.

Our cost of sales incurred during the Track Record Period may fluctuate subject to the scale of upgrading and expansion works undertaken as well as the direct costs incurred related to our wastewater treatment operations at a given time thereby affecting our trade payables balance as at the respective year end and the trade payables turnover days during the Track Record Period.

The increase in our trade payable turnovers day were primarily attributable to (i) various upgrading and expansion works were completed towards the end of the year and the corresponding costs remained unsettled as at the respectively year end; and (ii) the increase in costs of our wastewater treatment operation services, such as utilities and chemical costs, due to the increase in volume of wastewater treated by our Wastewater Treatment Plants and the improvement in water discharge standard.

Other payables and accruals

The following table sets forth our other payables at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Advances from customers	3,603	20,182	12	—
Retention payables	6,733	6,443	8,608	3,241
Notes payables	—	—	6,580	6,816
Other payables and accruals	32,445	27,586	29,024	18,902
Other payables	42,781	54,211	44,224	28,959

As at 30 April 2018, other payables primarily included other payables and accruals, retention payable and notes payables.

INDEBTEDNESS

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Term loan *(Note)*	734,840	714,553	768,457	755,251
Amount due to Taliworks Corporation Berhad	534,482	—	—	—
Amount due to LGB Group (HK) Limited	—	535,161	595,739	593,561
Amount due to fellow subsidiary	4,771	4,467	4,780	—
	1,274,093	1,254,181	1,368,976	1,348,812

Notes: The amounts were secured by (i) contractual rights to receive revenue generated by our Group; and (ii) the land use right in relation to parcel of land of which the Wastewater Treatment Plants are situated.

As at 31 December 2015, 2016 and 2017 and 31 August 2018, our Group had total indebtedness of approximately HK$1,274.1 million, HK$1,254.2 million, HK$1,369.0 million and HK$1,348.8 million. The outstanding external indebtedness as at 31 August 2018 were primarily denominated in RMB. As at 31 August 2018, our Group had unutilised banking facilities of approximately HK$197.6 million.

As at 31 August 2018, being the latest practicable date of our indebtedness statement, except as disclosed in the table above, our Group did not have any outstanding debt securities, bank overdrafts, borrowings, indebtedness, mortgages debentures, hire purchase commitments, guarantees or other material contingent liabilities. The amount due to LGB (HK) as at 31 August 2018 amounted to approximately HK$593.6 million. The entire balance of the amount due to LGB (HK) has been capitalised before the Latest Practicable Date. For details of the fluctuation of our indebtedness, please refer to the paragraph headed "Financial Information — Certain selected statements of financial position line items".

Save as disclosed, there is no material adverse change in our indebtedness up to the Latest Practicable Date.

Our Directors confirm that there was no material delay or default in repayment of our indebtedness, nor breach of any relevant finance covenant on our part, during the Track Record Period and up to 31 August 2018. There was no material covenant relating to our Group's outstanding debts.

CAPITAL EXPENDITURE

Our major construction costs consisted primarily of property, plant and equipment during the Track Record Period. We incurred construction costs of approximately HK$15,000, HK$0.2 million, HK$0.7 million and HK$66,000 during the years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

CONTRACTUAL OBLIGATIONS

Capital commitments

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our Group has the following capital commitments in respect of upgrading and expansion works of our Wastewater Treatment Plants under development:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for	76,047	18,229	200,530	193,992

As at 30 April 2018, our capital commitments of approximately HK$194.0 million is related to the upgrading and expansion works of Yinchuan Wastewater Treatment Plant 1, Phase II of Yinchuan Wastewater Treatment Plant 2 and the expansion of Plant 4 as disclosed in "Summary — Recent development after the Track Record Period".

Lease commitments

Our Group had the following future aggregate minimum lease payments under non-cancellable operating leases as at 31 December 2015, 2016 and 2017 and 30 April 2018:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	762	837	717	1,209
Over one year	—	122	30	317
	762	959	747	1,526

CONTINGENT LIABILITIES

As at 30 April 2018 and 31 August 2018, our Group had no significant contingent liabilities or outstanding litigation.

KEY FINANCIAL RATIOS

		As at/for the year ended 31 December			As at/for four months ended 30 April
	Note	2015	2016	2017	2018
Current ratio	*1*	0.4	0.6	0.6	0.8
Quick ratio	*2*	0.4	0.6	0.6	0.8
Gearing ratio	*3*	94.4%	93.6%	87.2%	81.7%
Return on equity	*4*	62.0%	56.7%	32.5%	7.2%
Return on total assets	*5*	3.1%	3.1%	3.3%	1.0%
Interest coverage	*6*	2.2	2.5	2.9	3.0
Net profit margin	*7*	18.0%	22.0%	16.1%	14.0%

Notes:

1. Current ratio is calculated by dividing total current assets with total current liabilities as at the end of the relevant year.

2. Quick ratio is calculated by dividing total current assets minus inventories with the total current liabilities as at the end of the relevant year.

3. Gearing ratio is calculated by net debt divided by total capital at the end of the relevant year. Net debt is calculated as total borrowings plus amounts due to related companies less cash and cash equivalents at the end of the relevant year. Total capital is calculated as total equity plus net debt.

4. Return on equity is calculated by dividing profit for the year for the relevant year with total equity as at the end of the respective year multiplied by 100%.

5. Return on total assets is calculated by dividing profit for the year for the relevant year with total assets as at the end of the respective year multiplied by 100%.

6. Interest coverage is calculated by dividing profit before interest and tax with interest expenses for the relevant year.

7. Net profit margin is calculated by dividing profit for the year with revenue for the relevant year multiplied by 100%.

Current ratio and quick ratio

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our current and quick ratios remained relatively stable at approximately 0.4, 0.6, 0.6 and 0.8, respectively. Given the nature of our business, we kept a low level of inventories during the Track Record Period. As such, our quick ratio was similar to that of our current ratio as at the respective year end date.

Gearing ratio

Our Group recorded gearing ratio of approximately 94.4%, 93.6%, 87.2% and 81.7% as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. Our Group's net debt as at 31 December 2015, 2016, 2017 and 30 April 2018 mainly consisted of non-current borrowings and amounts due to related parties. Upon our capitalisation of such balances, our Group's gearing ratio would improve. The entire balance of the amount due to LGB (HK) has been capitalised before the Latest Practicable Date. For further details on our Group's indebtedness positions, please refer to paragraph headed "Financial information — Indebtedness".

Return on equity (%)

Our Group recorded return on equity of approximately 62.0%, 56.7%, 32.5% and 7.2% for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

The return on equity of our Group decreased from approximately 62.0% for the year ended 31 December 2015 to approximately 56.7% for the year ended 31 December 2016 which was primarily attributable to the increase in total equity for the year ended 31 December 2016 of approximately HK$7.6 million, which was attributable to the factors as discussed under the paragraph headed "Financial information — Year ended 31 December 2016 compared with year ended 31 December 2015" in this section.

Subsequently, the return on equity of our Group decreased from approximately 56.7% for the year ended 31 December 2016 to approximately 32.5% for the year ended 31 December 2017 which was mainly due to the year-on-year increase in total equity of approximately 125.9%, being at a rate greater than the increase to the profit for the year of approximately 29.3%, as a result of reasons and factors as set out under paragraphs headed "Financial information — Period on period comparison of results of operations" and "Financial information — Certain selected statements of financial position line items".

As at 30 April 2018, our Group recorded return on equity of approximately 7.2%. If the [REDACTED] expenses of approximately HK$8.4 million were excluded, the return on equity of our Group would have been approximately 10.3% for the four months ended 30 April 2018.

Return on total assets (%)

Our Group recorded return on assets of approximately 3.1%, 3.1%, 3.3% and 1.0% for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. The return on total assets has remained stable during the Track Record Period. The profit for the year and total asset balances for each of the year ended 31 December 2015 and 2016 were at a similar level. The slight increase in return on total assets for the year ended 31 December 2017 was mainly attributable to the increase in both profit after tax and total assets. If the [REDACTED] expenses of approximately HK$8.4 million were excluded, the return on total assets of our Group would be approximately 1.5% for the four months ended 30 April 2018. For further details, please refer to paragraphs headed "Financial information — Period to period comparison of results of operations" and "Financial information — Certain selected statements of financial position line items".

Interest coverage

The interest coverage of our Group were approximately 2.2, 2.5, 2.9 and 3.0 for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively, which has remained stable over the Track Record Period. The finance costs of our Group comprised of interest on (i) borrowings; and (ii) certain amounts due to Taliworks Corporation Berhad/LGB (HK) during the Track Record Period. For further details on our borrowings and amounts due to Taliworks Corporation Berhad/LGB (HK), please refer to information as set out under paragraph headed "Financial information — Indebtedness" and "Financial information — Amounts due to related parties", respectively.

Net profit margin

Our Group recorded net profit margin of approximately 18.0%, 22.0%, 16.1% and 14.0% for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. Please refer to section headed "Financial information — Period to period comparison of result of operations" for a discussion of the factors affecting our net profit margin during the Track Record Period.

[REDACTED] EXPENSES

For the three years ended 31 December 2015, 2016 and 2017, we did not record any [REDACTED] expenses. The estimated total [REDACTED] expenses borne/to be borne by our Group, which primarily represent professional fees for our [REDACTED] is non-recurrent in nature, has been estimated to be approximately HK$[REDACTED] million (assuming an [REDACTED] of HK$[REDACTED]) per [REDACTED], being the mid-point of the indicative [REDACTED] range), of which approximately HK$[REDACTED] million is directly attributable to the issue of the [REDACTED] to the public and is to be accounted for as a deduction from equity. For the four months ended 30 April 2018, we recognised approximately HK$[REDACTED] million of [REDACTED] expenses which was charged to our combined income statements. The remaining HK$[REDACTED] million is expected to be charged to our profit or loss during remaining period of 2018. The Board wishes to inform the Shareholders and potential investors that our Group's financial performance and results of operations for the year ending 31 December 2018 will be affected by the estimated expenses in relation to the [REDACTED]. It should be noted that the [REDACTED] expenses are current estimate and for references only.

RELATED PARTY TRANSACTIONS

Please refer to the section headed "Related party transactions" under Note 30 of Accountant's Report set out in Appendix I to this document for details of our related party transactions, including balances with related parties, during the Track Record Period.

Save for amounts due to/from related parties, our Directors are of the view that during the Track Record Period, the related party transactions were conducted based on normal commercial terms and were no less favourable to us than terms available to or from Independent Third Parties.

Amounts due to/from fellow subsidiaries are measured at amortised cost, unsecured, interest free, and have no fixed terms of repayment, save for an amount due to (i) Taliworks Corporation Berhad as at 31 December 2015; and (ii) LGB (HK) as at 31 December 2016 and 2017 and 30 April 2018, of approximately US$1.6 million, respectively, which bear interest at a rate of 6.5% per annum. Our Group shall settle all outstanding amounts due to/from related parties prior to [REDACTED].

Our Group derived approximately HK$1.1 million, HK$1.1 million, HK$1.1 million and HK$0.8 million of management fees from related parties for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. As the relevant agreements have either ended or been terminated on or before 30 April 2018, no additional management fees will be derived from related parties thereafter.

Our Group incurred approximately HK$0.6 million and HK$0.4 million of consultancy fee to related party for the year ended 31 December 2015 and 2016, respectively. No consultancy fee to related party was incurred by our Group during the year ended 31 December 2017 and four months ended 30 April 2018.

Having considered that there was no material impact on the combined statements of comprehensive income arising from the related party transaction as described above during the Track Record Period, save as disclosed above, our Directors are of the view that the aforesaid related party transactions did not distort our financial results during the Track Record Period or cause our Track Record Period results to be unreflective of our future performance.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISK

We are exposed to various types of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and risk relating to fair value measurements during the normal course of our business. Our overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance.

Foreign currency risk

Our Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. Foreign currency risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies, including the United States dollars (the "**Non-functional Currency**").

Fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currency in which our group entities conduct business may affect our Group's financial position and results of operations. Our Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position. For illustration purposes only, if Non-functional Currency denominated monetary items adjusted their translation against the respective functional currencies of group entities as at the respective year-ends by 1% with all other variables held constant, our Group's net profit for the years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018 would decrease/increase by approximately HK$4.7 million, HK$4.6 million, HK$5.2 million and HK$6.1 million, respectively.

Interest rate risk

Our interest rate risk primarily arises from our borrowings. Borrowings obtained at variable rates are expose to cash flow interest rate risk. We have not entered into any interest rate swaps to hedge our exposure to interest risk.

If the interest rates had been 100 basis points higher/lower with all other variables held constant, our profit after tax for each of the years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018 would have been approximately HK$5.2 million, HK$4.7 million, HK$4.7 million and HK$1.4 million lower/higher, respectively.

Financial risk management

In addition to the foreign currency risk and interest rate risk set out above, our Group is also exposed to credit risk, liquidity risk and risk relating to fair value measurements during the course of our business. Further details on our financial risk management policies and practices are set out under the paragraph headed "Notes to the financial information — Financial risk management" in Appendix I to this document.

OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

As at the Latest Practicable Date, save as disclosed, we have not, nor do we expect, to enter into, any off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an uncombined entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

DIVIDEND DISTRIBUTION PRIOR TO THE [REDACTED]

No dividend has been paid by our Company during the Track Record Period. In addition, no dividend or distribution has been declared, made or paid by our Company or any of the other companies comprising the Group as at the Latest Practicable Date in respect of any period subsequent to 30 April 2018 up to the date of [REDACTED].

DIVIDEND

Subject to the Companies Law, we may declare dividends in any currency through a general shareholders' meeting, but no dividend shall be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profits, realised or unrealised, or from any reserves set aside from profits which our Directors determine are no longer needed. With the sanction of an ordinary resolution passed by our shareholders, dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

We currently do not have a formal dividend policy. 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, financial condition, capital requirements, interests of our shareholders and other factors which we may deem relevant.

Our future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC. PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in certain aspects from the generally accepted accounting principles in other jurisdictions including HKFRS. PRC law also requires a foreign-invested enterprise to transfer at least 10% of its net profit (after offsetting losses in the prior year) to a statutory reserve until the reserve balance reaches 50% of the registered capital of the enterprise. The transfer to its reserve must be made before distribution of dividends to its equity holders. Distributions from our PRC operating subsidiaries may also be restricted if they incur debt or losses due to PRC law restricting payments of dividends to us or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our PRC operating subsidiaries may enter into in future.

For more details regarding the restrictions on the payment of dividends by our PRC subsidiaries and taxes payable on dividends, please refer to the sections headed "Risk Factors — Risks relating to business operations in the PRC — Fluctuations in the value of RMB may materially and adversely affect the value of dividends and other distributions by our PRC subsidiaries, our business and your investment" and "Risk Factors — Risks relating to the [REDACTED] — We may be unable to pay any dividend on the Shares" in this document.

DISTRIBUTABLE RESERVE

Our Company was incorporated in the Cayman Islands on 17 April 2018 and has not carried on any business since the date of our incorporation. As such, as at 30 April 2018, we had no distributable reserve available for distribution to our shareholders.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted consolidated net tangible assets was prepared for illustrative purposes only and may not give a true picture of our financial position due to its hypothetical nature. For further details, please refer to the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this document.

MATERIAL ADVERSE CHANGES

Our Directors confirm that, up to the date of this document, there has been no material adverse change, other than the impact of the [REDACTED] expenses, in our financial, operational or trading position since 30 April 2018, being the end of the period reported on in the Accountant's Report in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

BUSINESS OBJECTIVES AND STRATEGIES

Our Group's main objective is to strengthen our market position in the wastewater treatment industry in the PRC and continue to strengthen our competitive strengths. To achieve our goals, we intend to utilise the following key business strategies:

- Continue to complete the contemplated upgrading and expansion works for our existing facilities;

- Strengthen our market position in the PRC through undertaking new wastewater treatment projects; and

- Continue to enhance the quality control system by establishing a new wastewater treatment control system.

Please refer to "Business — Business Strategies" in this document for details of our business strategies.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the [REDACTED], after deducting underwriting commissions and estimated expenses paid and payable by our Company in connection thereto, to be approximately HK$[REDACTED], assuming the [REDACTED] of HK$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] range of HK$[REDACTED] to HK$[REDACTED] per Share. We intend to apply such net proceeds in the following manner:

- To continue to complete the contemplated upgrading and expansion works of our existing facilities, approximately HK$[REDACTED] or [REDACTED]% of the net proceeds will be applied towards this purpose. Such remaining contemplated upgrading and expansion works are expected to be completed by the end of 2020. For details of our contemplated upgrading and expansion works and the status as at the Latest Practicable Date, please see "Business — Our existing wastewater treatment facilities" in this document;

- Approximately HK$[REDACTED] or [REDACTED]% of the net proceeds will be applied towards funding our identification and evaluation of new wastewater treatment projects in Yinchuan and/or in other regions in the PRC should the opportunities arise, which would mainly involve engaging an Independent Third Party consultancy firm to perform feasibility studies on the potential project(s), as an initial step to facilitate us to implement our business strategy of undertaking the new wastewater treatment projects which are considered to be suitable and meeting our own set of criteria after such identification and evaluation. Our Directors intend to apply this portion of the net proceeds within three years from the date of the [REDACTED]. As at the Latest Practicable Date, we had not yet identified any new projects for evaluation;

- Approximately HK$[REDACTED] or [REDACTED]% of the net proceeds will be applied for establishing and future upgrading of our own centralised monitoring system to enable our technical team and management to gain access to real-time data on the wastewater quality and wastewater treatment processes starting from the inflow to the outflow and provide timely appoint to resolve technical issues and oversee and manage our facilities without geographical restriction. Our Directors intend to apply this portion of the net proceeds by the end of 2019; and

- Approximately HK$[REDACTED] or [REDACTED]% of the net proceeds is expected to be used as general working capital and for general corporate purposes.

To the extent that the net proceeds from the [REDACTED] are not immediately required for the above purposes and to the extent permitted by applicable laws and regulations, if we are unable to effect any part of our future plans as intended, it is the present intention of our Directors that such net proceeds be placed in short-term interest bearing deposit accounts held with authorised financial institutions in Hong Kong and/or the PRC. In the event that we would require additional financing apart from the net proceeds from the issue of the [REDACTED] for our future plans, the shortfall will be financed by our internal resources and/or bank financing.

If the [REDACTED] is set at the high-end or low-end of the proposed [REDACTED] range, the net proceeds of the [REDACTED] will increase or decrease by approximately HK$[REDACTED] million. We will adjust the allocation of the net proceeds for the above-mentioned purposes on a pro rata basis.

We will issue an appropriate announcement if there is any material change in the aforementioned use of proceeds.

REASONS FOR THE [REDACTED]

The primary reasons for the [REDACTED] are to allow us to raise funds for us (i) to continue to carry out the contemplated upgrading and expansion works of our existing facilities so as to aim for higher tariffs and basic volumes and hence to receive higher wastewater treatment service fees and to maintain and strengthen our competitiveness and market share in Yinchuan and Ningxia by continuing to raise our discharge standards and treatment capacities; (ii) to identify and evaluate suitable new projects in the PRC for the purpose of growing our business by operating additional wastewater treatment facilities; and (iii) to upgrade our wastewater treatment real-time monitoring system to facilitate our management to gain real-time comprehensive data in our wastewater treatment processes and remote access to such data so that our operations can be managed more effectively without geographical restrictions and such upgrading of our centralised monitoring system is important for enabling us to comply with the increasingly stringent wastewater treatment standards of the relevant governmental authorities and thereby maintaining and strengthening our reputation and market position.

As disclosed in "Business — Project Financing" in this document, as at 30 April 2018, we estimated that the construction cost, required to complete the remaining contemplated upgrading and expansion works (inclusive of the estimated construction cost for the upgrading to Quasi Surface Water Standard Class IV (準四類水標準) for the additional capacity of 100,000 cubic meters to be built at Plant 4) is approximately RMB468.0 million (equivalent to approximately HK$585.0 million), which is expected to comprise of (i) purchase of equipment and installation cost of approximately RMB231.6 million (equivalent to approximately HK$289.5 million); (ii) costs for civil and structural works of

approximately RMB158.3 million (equivalent to approximately HK$197.9 million); (iii) design and exploration cost of approximately RMB35.2 million (equivalent to approximately HK$44.0 million); and (iv) other ancillary costs of approximately RMB42.9 million (equivalent to approximately HK$53.6 million). The above-mentioned estimated construction cost is expected to be satisfied as to (i) approximately 65% by bank borrowings (including unutilised bank facilities and additional bank facilities to be obtained by our Group in future); and (ii) the remaining approximately 35% by a combination of internally generated funds and approximately [REDACTED]% of the net [REDACTED] from the [REDACTED], being approximately HK$[REDACTED]. Out of the said approximately HK$585.0 million estimated construction costs required for completing the remaining contemplated upgrading and expansion works, approximately HK$108.2 million has incurred between 1 May 2018 to 30 August 2018, the balance of approximately HK$476.8 million is expected to be incurred from September 2018 onward.

As at 30 April 2018, our Group had cash and cash equivalents of approximately HK$199.7 million and unutilised banking facilities of approximately HK$250.0 million. Such unutilised banking facilities consisted of the four project loan facilities and a working capital loan facility. The usage of each of our banking facilities are restricted to that as stipulated in the relevant loan agreements such that each project loan is restricted to financing the construction costs of the contemplated upgrading the expansion works for subject Wastewater Treatment Plant only, and the funds that can be drawdown from the working capital loan facility can only be used for the daily operations of the Wastewater Treatment Plants. Accordingly, after deducting the unutilised amounts under the project loan for Plant 3 (since all its contemplated upgrading and expansion works had been completed) and the working capital loan, the unutilised banking facilities under the project loans that can be applied to fund the contemplated upgrading and expansion works was approximately HK$224.6 million as at 30 April 2018. Based on the above, there was a shortfall of approximately HK$160.7 million of estimated construction cost needed for completing the contemplated upgrading and expansion works and are not covered by our Group's existing banking facilities and cash on hand as at 30 April 2018.

As at 31 August 2018, the total amount of outstanding bank loan was approximately RMB650.9 million (equivalent to approximately HK$747.8 million). Besides the project loans and working capital loan, out of the total consideration of RMB810.0 million (equivalent to approximately HK$1,012.5 million) for acquiring the concession right and taking over the underlying assets of the facilities under the TOT Transfer Agreement, RMB526.5 million (equivalent to approximately HK$641.0 million) was funded by bank loan and our Group is in the course of repaying such outstanding bank loan in accordance with the terms of the relevant bank facility agreement that has a fixed term of 16 years from 2011.

Aside from the fact that the construction costs for the upgrading and expansion works is only an estimate, and may be revised upwards (due to variation orders and other unforeseen increases), the estimated construction costs necessary for completing the upgrading and expansion works is significantly more than our Group's cash on hand and the unutilised portion of our Group's project loans based on the information as at 30 April 2018 as mentioned above.

Our Directors believe that, in view of our Group's capital needs and the need to maintain a sufficient level of cash and cash equivalent and a prudent gearing level, and to prepare for the substantial initial capital requirement in acquiring or constructing new wastewater treatment projects in future, in the absence of the net proceeds from the [REDACTED], the ability of our Group to implement

our business strategy of pursuing new wastewater treatment projects would be limited. Our Directors also believe that the net proceeds from the [REDACTED] would enhance our Group's position during negotiations for additional bank loans to fund future projects and/or the contemplated upgrading and expansion works.

Our Directors also believe that the [REDACTED] would bring the following commercial benefits to our Group:

1. The [REDACTED] can provide our Group with a more diversified and broader shareholder base to include public investors, thus provide our Group with additional financing alternatives and a platform for us to raise funds from the capital market for our long-term development needs and future business expansion.

2. Our Group has the need to obtain further debt financing from banks to finance the remaining contemplated upgrading and expansion works, with a significant extent of the same not yet covered by existing unutilised banking facilities. Also in view of the substantial capital requirement in acquiring new wastewater treatment projects in future, our Directors believe that the [REDACTED] status, bringing about higher transparency, stricter regulatory supervision and a solid financing platform, would enhance our Group's ability to obtain further banking facilities with terms acceptable to us to finance or operations and development, completing the contemplated upgrading and expansion works and future wastewater treatment projects.

3. According to the CIC Report, the main area of competition among the existing industry players in the wastewater treatment industry is more focused on the bidding for new projects and reputation is one of the key factors to competitiveness and entry barrier for companies which are seeking to participate in future wastewater treatment projects. Our Directors believe that our Group's image to the public and reputation could be further enhanced after the [REDACTED] and thereby increase our Group's competitiveness when bidding for new projects in future.

Factors taken into account by our Directors in choosing equity financing though the [REDACTED]

In choosing equity financing through the [REDACTED] over debt financing for raising such amount of fund comparable to that of the gross proceeds ranging from approximately [REDACTED] to [REDACTED] under the current plan, our Directors have taken into account (i) during the Track Record Period, our Group had incurred significant amounts of finance cost of approximately HK$50.8 million, HK$42.8 million and HK$42.0 million for each of the three years ended 31 December 2017, each of which is notably higher than that of the estimated expenses for the [REDACTED] of approximately HK$[REDACTED]; (ii) the fact that the estimated [REDACTED] expense is not disproportionate for raising the gross proceed ranging from approximately [REDACTED] to [REDACTED] under the current plan; (iii) the finance costs attributable to debt financing are recurring in nature until subject debt financing is repaid in full, while the [REDACTED] expenses are non-recurring and one-off in nature; (iv) the fact that equity financing does not divert the funds generated from our Group's operation for repayment of the net proceeds raised, as opposed to the requirement of regular repayment to the lenders in debt financing; and (v) in addition to the payment of construction costs, our cash outflows from operating activities were primarily used for costs of wastewater treatment operation, including, among others, utility, and chemicals, employee expenses and other operating costs in relation to our Wastewater

Treatment Plants. Based on the information available to our Directors as at the Latest Practicable Date, without taken into consideration the credit period granted by the respective suppliers, the estimated monthly operating cash outflow as a result of such expenses, save for payment of construction costs, amounts to approximately HK$10.2 million.

Furthermore, in light of the commercial benefits of the [REDACTED] as mentioned-above, our Directors believe that the [REDACTED] and the [REDACTED] is a suitable fund raising means to provide our Group with a significant amount of readily available funds for its business operation and development and enhance its reputation, financial capability and provide a solid fund raising platform to source funds for its future business expansion.

The [REDACTED] will also expand and diversify our shareholder base and potentially lead to a more liquid market in the trading of our Shares.

Impact of the remaining upgrading and expansion works on our profit margins and operations going forward

Subject to various factors, including among others, (i) as advised by JLL, the construction profit margins for the Wastewater Treatment Plants in relation to the upgrading and expansion services under our concession arrangement would be at approximately 10.0%, and the operating profit margins for the Wastewater Treatment Plants in relation to our wastewater treatment operation services would be at approximately 39.0%; (ii) the expected composition of the revenue and cost of sales of our Group for the year ending 31 December 2018; and (iii) the progress of our scheduled upgrading and expansion works, the actual level of cost of sales, including operating costs and construction costs, and general and administrative expenses, to be incurred by our Group for the year ending 31 December 2018, based on the information available as at the Latest Practicable Date and barring unforeseen circumstances, partly attributable to our ongoing and planned upgrading and expansion works, our Directors expect that the gross and net profit margins of our Group (excluding [REDACTED] expenses) for the year ending 31 December 2018 to be in line with the gross and net profit margins range recorded by our Group for the year ended 31 December 2017. Having considered the above, in particular, the gross and net profit margins of our Group (excluding [REDACTED] expenses) for the year ending 31 December 2018 is expected to be in line with our gross and net profit margins range recorded during the Track Record Period and that it is common for our gross and net profit margins to vary year-on-year attributable to the different composition of our revenue and cost of sales for a given year, in particular as a result of the overall portion of revenue attributable to our wastewater treatment construction services and our wastewater treatment operation services respectively, as their respective gross profit margins differ notably, our Directors are of the view that the gross and net profit margins of our Group for the year ending 31 December 2018 will not be materially impacted as a result of our provision of construction services for the upgrading and expansion works.

Based on the information available as at the Latest Practicable Date and barring unforeseen circumstances, our Directors are of the view that the carrying out of the remaining upgrading and expansion works is not expected to result in material disruptions to our Group's operations going forward.

[REDACTED]

UNDERWRITING

[REDACTED]

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

[REDACTED]

Commission and expenses

The [REDACTED] will receive an [REDACTED] of [REDACTED]% of the aggregate [REDACTED] of all [REDACTED] underwritten by them, which are to be borne by our Company, out of which they will pay any [REDACTED] and will be reimbursed for their reasonable expenses.

For unsubscribed [REDACTED] reallocated to the [REDACTED], the [REDACTED] will not be paid to the [REDACTED] but will instead be paid, at the rate applicable to the [REDACTED], to the [REDACTED] and the relevant [REDACTED].

The total commission and expenses relating to the [REDACTED] and [REDACTED] (including the [REDACTED] fees, legal and other professional fees, and printing), are estimated to approximately HK$[REDACTED] million, assuming an [REDACTED] of HK$[REDACTED], being the mid-point of the indicative [REDACTED] range, which will be payable by our Company.

[REDACTED]

SPONSOR'S INTERESTS AND INDEPENDENCE

Save as provided for under the [REDACTED] and save as disclosed in this document, neither the Sponsor nor any of its directors, employees and close associates is interested legally or beneficially in the shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the [REDACTED] or has any other business relationship with our Group.

Neither the Sponsor nor any of its directors, employees and close associates has accrued any material benefit as a result of the successful outcome of the [REDACTED], other than by way of documentation and financial advisory fee to be paid to the Sponsor for acting as the sponsor of the [REDACTED].

None of the directors and employees of the Sponsor has any directorship in our Company or any other companies comprising our Group.

The Sponsor satisfies the independence criteria applicable to the Sponsor as set out in Rule 6A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors and the [REDACTED] and [REDACTED] will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 11.23(7) of the Listing Rules after completion of the [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

The following is the text of a report set out on pages I-1 to I-3 received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountant's Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TIL ENVIRO LIMITED AND RED SUN CAPITAL LIMITED

Introduction

We report on the historical financial information of TIL Enviro Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-4 to I-62, which comprises the combined statements of financial position as at 31 December 2015, 2016 and 2017 and 30 April 2018, the Company statement of financial position as at 30 April 2018, the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years/period then ended (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-62 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [Date] (the "**Document**") in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical 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 the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 30 April 2018 and the combined financial position of the Group as at 31 December 2015, 2016 and 2017 and 30 April 2018 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the four months ended 30 April 2017 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review 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 of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 14 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong
[Date]

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong thousand dollars ("**HK$'000**") and all values are rounded to the nearest thousand except when otherwise indicated.

Combined Income Statements

		Year ended 31 December			Four months ended 30 April	
		2015	2016	2017	2017	2018
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	*5*	250,521	207,419	366,381	63,816	138,373
Cost of sales	*8*	(137,160)	(95,450)	(233,597)	(26,859)	(80,872)
Gross profit		113,361	111,969	132,784	36,957	57,501
Other income	*6*	3,360	2,514	2,847	510	761
Other gains/(losses), net	*7*	3,358	982	(3,083)	(1,089)	(1,876)
General and administrative expenses	*8*	(8,450)	(9,918)	(10,017)	(3,617)	(12,140)
Operating profit		111,629	105,547	122,531	32,761	44,246
Finance costs	*11*	(50,835)	(42,818)	(41,972)	(13,305)	(14,884)
Profit before income tax		60,794	62,729	80,559	19,456	29,362
Income tax expense	*12*	(15,741)	(17,174)	(21,659)	(5,672)	(9,974)
Profit for the year/period		45,053	45,555	58,900	13,784	19,388
Profit for the year/period attributable to:						
Owners of the Company		45,596	46,218	58,915	13,882	19,254
Non-controlling interest		(543)	(663)	(15)	(98)	134
		45,053	45,555	58,900	13,784	19,388
Earnings per share for profit attributable to owners of the Company						
— Basic and diluted	*13*	N/A	N/A	N/A	N/A	N/A

Combined Statements of Comprehensive Income

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit for the year/period	45,053	45,555	58,900	13,784	19,388
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Currency translation differences	(26,829)	(37,912)	42,253	4,063	27,353
Reclassification of exchange reserve upon deregistration/ disposal of subsidiaries	—	—	—	—	(2,050)
Total comprehensive income for the year/period	18,224	7,643	101,153	17,847	44,691
Total comprehensive income attributable to:					
Owners of the Company	18,935	8,167	101,409	17,995	44,899
Non-controlling interest	(711)	(524)	(256)	(148)	(208)
	18,224	7,643	101,153	17,847	44,691

Combined Statements of Financial Position

	Note	As at 31 December 2015	2016	2017	As at 30 April 2018
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*15*	1,191	1,089	1,700	1,666
Receivable under service concession arrangement	*16*	1,111,732	986,953	1,153,512	1,221,986
Intangible assets	*17*	51,196	47,682	59,496	63,910
Restricted bank balances	*20*	4,776	4,472	4,785	4,957
Other non-current assets	*27*	46,055	43,119	46,143	—
		1,214,950	1,083,315	1,265,636	1,292,519
Current assets					
Inventories	*18*	440	269	364	370
Trade and other receivables	*19*	5,548	10,961	36,126	77,116
Receivable under service concession arrangement	*16*	114,686	236,388	251,359	274,401
Amounts due from fellow subsidiaries	*30(b)*	14,969	13,993	17,962	21,041
Financial assets at fair value through profit or loss	*25*	82,181	58,997	66,873	16,926
Restricted bank balances	*20*	—	—	6,580	6,816
Cash and cash equivalents	*20*	37,972	80,214	130,141	199,745
		255,796	400,822	509,405	596,415
Total assets		1,470,746	1,484,137	1,775,041	1,888,934
EQUITY					
Capital and reserves					
Share capital	*21*	1	1	1	1
Reserves	*22*	(12,213)	(50,264)	(7,770)	48,381
Retained earnings		97,050	143,268	202,183	221,437
		84,838	93,005	194,414	269,819
Non-controlling interest		(12,148)	(12,672)	(12,928)	—
Total equity		72,690	80,333	181,486	269,819

		As at 31 December			As at 30 April
		2015	2016	2017	2018
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
LIABILITIES					
Non-current liabilities					
Long-term borrowings	*23*	700,645	673,939	700,356	743,124
Deferred tax liabilities	*26*	50,413	63,649	90,371	103,533
		751,058	737,588	790,727	846,657
Current liabilities					
Trade and other payables	*24*	73,544	85,961	134,062	113,637
Amount due to Taliworks Corporation Berhad	*30(c)*	534,482	—	—	—
Amount due to LGB Group (HK) Limited	*30(c)*	—	535,161	595,739	602,284
Amount due to a fellow subsidiary	*30(b)*	4,771	4,467	4,780	—
Amounts due to related companies	*30(b)*	6	13	146	—
Current portion of long-term borrowings	*23*	17,479	26,640	48,960	50,750
Short-term borrowings	*23*	16,716	13,974	19,141	5,787
		646,998	666,216	802,828	772,458
Total liabilities		1,398,056	1,403,804	1,593,555	1,619,115
Total equity and liabilities		1,470,746	1,484,137	1,775,041	1,888,934
Net current liabilities		391,202	265,394	293,423	176,043
Total assets less current liabilities		823,748	817,921	972,213	1,116,476

Company Statement of Financial Position

	Note	As at 30 April 2018 HK$'000
ASSETS		
Current assets		
Prepayment	*19*	2,413
Total assets		2,413
EQUITY		
Share capital	*21*	—
Accumulated losses	*31*	(8,374)
Total deficit		(8,374)
LIABILITY		
Current liabilities		
Other payables	*24*	8,609
Amounts due to subsidiaries	*30(d)*	2,178
Total liabilities		10,787
Total equity and liabilities		2,413
Net current liabilities		8,374
Total assets less current liabilities		8,374

Combined Statements of Changes in Equity

	Equity attributable to owners of the Group						
	Share capital	Exchange reserves	Capital reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	1	14,448	—	51,454	65,903	(11,437)	54,466
Profit for the year	—	—	—	45,596	45,596	(543)	45,053
Other comprehensive income							
Currency translation differences	—	(26,661)	—	—	(26,661)	(168)	(26,829)
At 31 December 2015	1	(12,213)	—	97,050	84,838	(12,148)	72,690
Profit for the year	—	—	—	46,218	46,218	(663)	45,555
Other comprehensive income							
Currency translation differences	—	(38,051)	—	—	(38,051)	139	(37,912)
At 31 December 2016	1	(50,264)	—	143,268	93,005	(12,672)	80,333
Profit for the year	—	—	—	58,915	58,915	(15)	58,900
Other comprehensive income							
Currency translation differences	—	42,494	—	—	42,494	(241)	42,253
At 31 December 2017	1	(7,770)	—	202,183	194,414	(12,928)	181,486
Profit for the period	—	—	—	19,254	19,254	134	19,388
Other comprehensive income							
Currency translation differences	—	27,080	—	—	27,080	273	27,353
Deregistration of a subsidiary	—	(144)	—	—	(144)	—	(144)
Transactions with owners in their capacity as owners:							
Disposal of subsidiaries *(note 32)*	—	(1,291)	30,506	—	29,215	12,521	41,736
At 30 April 2018	1	17,875	30,506	221,437	269,819	—	269,819
Unaudited							
At 1 January 2017	1	(50,264)	—	143,268	93,005	(12,672)	80,333
Profit for the period	—	—	—	13,882	13,882	(98)	13,784
Other comprehensive income							
Currency translation differences	—	4,113	—	—	4,113	(50)	4,063
At 30 April 2017	1	(46,151)	—	157,150	111,000	(12,820)	98,180

Combined Statements of Cash Flows

	Note	Year ended 31 December 2015	2016	2017	Four months ended 30 April 2017	2018
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Cash flows from operating activities						
Cash generated from/(used in) operations	*28(a)*	48,646	41,046	35,709	(271)	(35,542)
Net cash generated from operating activities		48,646	41,046	35,709	(271)	(35,542)
Cash flows from investing activities						
Purchases of property, plant and equipment		(15)	(240)	(736)	(23)	(66)
Proceeds from disposal of property, plant and equipment		53	126	8	—	—
Additions of financial assets at fair value through profit or loss		(134,310)	(17,910)	(35,889)	—	—
Proceeds from the disposals of financial assets at fair value through profit or loss		50,520	35,773	31,104	—	51,727
Disposal of subsidiaries		—	—	—	—	(76)
Interest received		296	429	641	148	347
Net cash (used in)/generated from investing activities		(83,456)	18,178	(4,872)	125	51,932
Cash flows from financing activities						
Proceeds from borrowings		94,017	62,925	47,254	12,772	17,749
Repayments of borrowings		(34,596)	(35,207)	(43,564)	(9,582)	(14,122)
Interest paid		(50,975)	(42,833)	(42,108)	(13,349)	(14,906)
Changes in amounts due from Taliworks Corporation Berhad	*28(b)*	3,150	—	—	—	—
Changes in amounts due from LGB Group (HK) Limited	*28(b)*	—	856	55,397	263	59,138
Net cash generated from/(used in) financing activities		11,596	(14,259)	16,979	(9,896)	47,859
Net (decrease)/increase in cash and cash equivalents		(23,214)	44,965	47,816	(10,042)	64,249
Cash and cash equivalents at beginning of year		63,197	37,972	80,214	80,214	130,141
Currency translation differences		(2,011)	(2,723)	2,111	(1,167)	5,355
Cash and cash equivalents at end of year	*20*	37,972	80,214	130,141	69,005	199,745

II NOTES TO THE FINANCIAL INFORMATION

1 General information, reorganisation and basis of presentation

1.1 General information

TIL Enviro Limited (the "**Company**") was incorporated in the Cayman Islands on 17 April 2018 with limited liability. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108. The immediate holding company is Sparkle Century Group Limited ("**Sparkle Century**"), a limited liability company incorporated in the British Virgin Islands. The ultimate holding company is LGB (Malaysia) Sdn. Bhd. ("**LGB (Malaysia)**"), a private limited liability company incorporated in Malaysia. The ultimate controlling shareholders of the Group are Mr. Lim Chee Meng ("**Mr. CM Lim**") and Mr. Lim Chin Sean ("**Mr. CS Lim**") (the "**Controlling Shareholders**").

The Company is an investment holding company, and its subsidiaries comprising the Group are principally engaged in the wastewater treatment business in the People's Republic of China (the "**PRC**") (the "**[REDACTED]**").

1.2 Reorganisation

Prior to the incorporation of the Company and the group reorganisation (the "**Reorganisation**", as explained below), the [REDACTED] was carried out by Taliworks International Limited ("**TIL**") and its subsidiaries. In preparation for the [REDACTED] and [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**[REDACTED]**"), the Group underwent the Reorganisation as follows:

(i) Sparkle Century was incorporated in the British Virgin Islands ("**BVI**") as a limited liability company on 6 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each and one share was issued and allotted, credited as fully paid, to LGB Group (HK) Limited ("**LGB (HK)**").

(ii) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 April 2018. As at the date of incorporation, the Company has an authorised share capital of HK$380,000 divided into 38,000,000 shares with a par value of HK$0.01 each. At the time of incorporation, one nil paid share was issued and allotted to an initial subscriber and was subsequently transferred to Sparkle Century, while Sparkle Century was wholly-owned by LGB (HK).

(iii) White Empire Group Limited ("**White Empire**") was incorporated in BVI as a limited liability company on 12 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 9 May 2018, one ordinary share with a par value of US$1 of White Empire, representing the then entire issued share capital of White Empire, was issued and allotted to the Company at par and credited as fully paid.

(iv) On 11 April 2018, TIL (as vendor) and LGB (HK) (as purchaser) entered into a sale and purchase agreement pursuant to which, TIL agreed to sell and LGB (HK) agreed to purchase 70% equity interest held by TIL in Taliworks Eco Pte Ltd ("**TECO**"). As consideration, LGB (HK) agreed to pay TIL SG$1 as cash consideration (which was determined by the parties with reference to the net loss position of TECO); and assume absolutely and unconditionally all liabilities of TECO owed to TIL by entering into a deed of novation on the same day with TIL and TECO. The transactions were properly and legally completed and settled on 11 April 2018, following which TECO and its subsidiary ceased to be subsidiaries of TIL.

(v) On 10 May 2018, White Empire (as purchaser), LGB (HK) (as vendor), the Company, Sparkle Century, and TIL entered into a sale and purchase agreement, pursuant to which, LGB (HK) agreed to transfer the entire issued share capital of TIL to White Empire. In consideration for such transaction, as directed by LGB (HK) and procured by White Empire, (a) White Empire agreed to issue and allot one ordinary share, credited as fully paid, to the Company; (b) the Company agreed to credit one nil-paid share held by Sparkle Century as fully paid; (c) the Company agreed to issue and allot 9,999 shares, all credited as fully paid, to Sparkle Century; (d) Sparkle Century agreed to issue and allot one ordinary share, credited as fully paid, to LGB (HK); and (e) the Company agreed to assume the debt owed by TIL to LGB (HK) prior to the transaction. On the same day, TIL, the Company and LGB (HK) entered into a deed of novation for assumption of the

aforesaid debt of TIL, following which the aforesaid debt became due from the Company to LGB (HK). The transactions were properly and legally completed and settled on 10 May 2018, following which TIL became wholly-owned by White Empire.

Upon completion of the Reorganisation, the Company has become the then holding company of the other companies comprising the Group.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private limited liability companies and the particulars of which are set out below:

			Percentage of equity attributable to the Group						Name of statutory auditors			
	Place and date of incorporation/	Issued or registered paid	31 December			30 April	As at the date of this		31 December			30 April
Name	establishment	up capital	2015	2016	2017	2018	report	Principal activities	2015	2016	2017	2018
White Empire Group Limited	BVI, 12 February 2018	US dollar 1	—	—	—	100%	100%	Investment holding	N/A	N/A	N/A	N/A
Taliworks-IBI Technologies International Limited	Hong Kong, 4 June 2007	HK$200,000	70%	70%	70%	70%	70%	In the process of winding up	N/A	N/A	N/A	N/A
Taliworks International Limited	Hong Kong, 27 September 2002	HK$100	100%	100%	100%	100%	100%	Investment holding	(ii)	(ii)	(ii)	(ii)
Taliworks (Shanghai) Co., Ltd.	The PRC, 24 July 2005	US dollars 125,000	100%	100%	100%	100%	100%	Inactive	(i)	(i)	(i)	(i)
Taliworks Eco Pte Ltd.	Singapore, 4 March 2008	Singapore dollars 100,000	70%	70%	70%	—	—	Investment holding	(iii)	(iii)	(iii)	(iii)
Taliworks (Shanghai) Environmental Technologies Co., Ltd.	The PRC, 5 November 2008	US dollars 1,500,000	100%	100%	100%	100%	100%	Consultancy service	(i)	(i)	(i)	(i)
Taliworks Environment Limited	Hong Kong, 16 December 2008	HK$10,000	100%	100%	100%	100%	100%	Inactive	(ii)	(ii)	(ii)	(ii)
Tilgea Consortium Sdn. Bhd.	Malaysia, 20 May 2010	Malaysian Ringgit 1,000,000	70%	70%	70%	—	—	Deregistered	(v)	(v)	(v)	(v)
Ningxia Eco Wastewater Treatment Co., Ltd.	The PRC, 17 June 2010	US dollars 4,200,000	70%	70%	70%	—	—	Inactive	(iv)	(iv)	(iv)	(iv)
Taliworks (Yinchuan) Wastewater Treatment Co., Ltd.	The PRC, 6 May 2011	US dollars 75,880,000	100%	100%	100%	100%	100%	Wastewater treatment	(iv)	(iv)	(iv)	(iv)

(i) The statutory financial statements were audited by CAC CPA Limited Liability Partnership

(ii) The statutory financial statements were audited by Eric Mok & Co., Limited

(iii) The statutory financial statements were audited by Uhy Lee Seng Chan & Co

(iv) The statutory financial statements were audited by 寧夏天華會計師事務所

(v) The statutory financial statements were audited by Deloitte PLT Chartered Accountants

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the [REDACTED] is held by TIL and its subsidiaries, which were owned and controlled by the Controlling Shareholders. Pursuant to the Reorganisation, TIL and the [REDACTED] are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the shareholding structure of the [REDACTED] with no changes in management of such business and the ultimate owners of the [REDACTED] remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the [REDACTED] under TIL and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of TIL and its subsidiaries, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the [REDACTED] under the consolidated financial statements of TIL for all years/periods presented, since the respective dates of incorporation/establishment of the combining entities, or since the date when the combining companies first came under the control of the Controlling Shareholders, whichever is the earlier.

The Historical Financial Information also included the assets and liabilities of TECO and its subsidiary before the disposal to LGB (HK) (Note 1.2(iv)) because they were not managed separately and were financially controlled within the Group and its operations were integral part of the [REDACTED] during the Track Record Period before the disposal to LGB (HK) (Note 1.2(iv)). Their financial information is disclosed in note 32.

2 Summary of accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years/periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and under the historical cost convention, as modified by the valuation of financial assets at fair value through profit or loss, which have been measured at fair value.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

As at 31 December 2015, 2016 and 2017, and 30 April 2018, the Group had net current liabilities of approximately HK$391,202,000, HK$265,394,000, HK$293,423,000 and HK$176,043,000 respectively. The shortfall in net current liabilities was primarily attributable to amounts due to Taliworks Corporation Berhad ("**TCB**"), the former immediate holding company (approximately HK$534,482,000 as at 31 December 2015), and LGB (HK), the current immediate holding company (approximately HK$535,161,000, HK$595,739,000 and HK$602,284,000 as at 31 December 2016 and 2017 and 30 April 2018 respectively), which have been subsequently capitalised on 28 September 2018 after the period end (note 33). As at 30 April 2018, the Company had net current liabilities of approximately HK$8,374,000 and net liabilities of the same amount.

The directors have reviewed the Group's cash flow projections and have made due enquiries and considered the basis and assumptions of management's projections as described above. The directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows, and the continuous availability of bank facilities, the Company and the Group will have sufficient financial resources to support its operations and to meet their financial obligations as and when they fall due in the coming twelve months from 30 April 2018. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

Adoption of Hong Kong Financial Reporting Standard 9 "Financial instruments" ("HKFRS 9")

The Group has adopted HKFRS 9 on 1 January 2015 for the years ended 31 December 2015, 2016 and 2017 and for the four months ended 30 April 2017 and 2018 in the Historical Financial Information. The new accounting policies replace the provisions of HKAS 39 Financial Instruments: Recognition and Measurement (HKAS 39) in relation to (i) recognition, classification and measurement of financial assets and financial liabilities; (ii)

derecognition of financial instruments; (iii) impairment of financial assets; and (iv) hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments: Disclosures. The new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows.

Adoption of Hong Kong Financial Reporting Standard 15 "Revenue from contracts with customers" ("HKFRS 15")

HKFRS 15 as issued by the HKICPA is effective for the financial year beginning or after 1 January 2018.

The Group has adopted HKFRS 15 on 1 January 2015 for the years ended 31 December 2015, 2016 and 2017 and for the four months ended 30 April 2017 and 2018 in the Historical Financial Information because the new accounting standard provides more reliable and relevant information for users to assess the amounts, timing and uncertainty of revenue and cash flows.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to be recognised through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service transfers to a customer.

Standards, amendments to standards and interpretation which are not yet effective

The following new standards and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning after 1 January 2019 and later periods and have not been early adopted:

		Effective for accounting periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK(IFRIC) — Int 23	Uncertainty over income tax treatments	1 January 2019
Annual Improvements 2015–2017 Cycle	Improvements to HKFRSs	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HKFRS 10 and HKAS 28 Amendments	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019

The Group has already commenced an assessment of the related impact to the Group of the above standards and amendments that are relevant to the Group upon initial application. According to the preliminary assessment made by the directors of the Company, management does not anticipate any significant impact on the Group's financial positions and results of operations except as disclosed below.

HKFRS 16, "Leases"

HKFRS 16 specifies how an entity will recognise, measure, present and disclose leases. HKFRS 16 is mandatory for the Group's financial statements for annual periods beginning on or after 1 January 2019. The Group currently plans to adopt this new standard on 1 January 2019.

The new standard provides a single, on balance sheet lease accounting model for lessees. It will result in almost all leases being recognised by the lessee on the balance sheet, as the distinction between operating and finance leases is removed. Under HKFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. In addition, the nature of expenses related to those leases will now change as HKFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The combination of a

straight-line depreciation of the right-of-use asset and effective interest rate method applied to the lease liability results in a decreasing "total lease expense" over the lease term. In the initial years of a lease, the new standard will result in an aggregate expense which is higher than the straight-line operating lease expense typically recognised under the current standard, and a lower expense after the mid-term of the lease as the interest expense reduces. The Group's profit after tax for a particular year may be affected negatively or positively depending on the maturity of the Group's overall lease portfolio in that year.

As a lessee, the Group can either apply the standard using a full retrospective approach, or a modified retrospective approach with optional practical expedients.

The Group is considering to elect the modified retrospective approach upon the initial adoption. Under the modified retrospective approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 January 2019; and (iii) the Group will recognise the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained profit (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 January 2019.

As at 30 April 2018, the Group has non-cancellable operating lease commitments of approximately HK$1,526,000 which accounts for less than 1% of the Group's total asset and liabilities respectively as at 30 April 2018. The Group expects that the adoption of HKFRS 16 as compared with the current accounting policy would not result in significant impact on the Group's assets and liabilities. Upon adoption of HKFRS 16, the Group will recognise a liability reflecting these future lease payments and right-of-use assets, unless the underlying asset is of low value or they are short-term leases, in its balance sheets. However, the Group does not expect a significant impact on operating performance.

2.2 Subsidiaries

2.2.1 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are combined from the date on which control is transferred to the Group. They are decombined from the date that control ceases.

Business combinations under acquisition accounting

The acquisition method of accounting is used to account for business combination by the Group other than business combination under common control. The consideration transferred for the acquisition of a subsidiary or business is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

(ii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in combined income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had

directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to combined statement of equity as specified/permitted by applicable HKFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performances of the operating segments, has been identified as the management that make strategic decisions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the ''functional currency''). The Historical Financial Information are presented in Hong Kong dollars ("**HK$**"), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the combined income statement during the financial period in which they are incurred.

Depreciation is calculated to write off the cost to their residual value on a straight-line basis over the expected useful lives. The useful lives or principal annual rates used are:

Furniture, fixtures and equipment	20%–33%
Motor vehicles	10%–25%
Computer equipment	20%–33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains/(losses), net" in profit or loss.

2.6 Intangible assets

(i) Service concession right

The Group applies the intangible asset model to account for the water infrastructures as service concession right where they are paid by the users of the water concession services and the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of costs incurred to be recoverable. The intangible assets correspond to the rights granted by the respective concession grantors to the Group to charge users of the water concession service.

Service concession right is initially recognised at fair value of the consideration paid and subsequently stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation of service concession right is calculated to write off their costs on a straight-line basis over the term of operation until September 2041. Both remaining period and method of amortisation are reviewed at each finance reporting date.

(ii) Computer softwares

The intangible assets other than goodwill are measured initially at cost, and subsequently amortised on a straight-line basis over its estimated useful life of five years and carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life reflect the director's estimate of the periods that the Group intends to derive future economic benefits from the use of assets.

2.7 Service concession arrangement

The Group has entered into a service concession arrangement with a governmental authority (the "**Grantor**"). The service concession arrangement is a Transfer-Operate-Transfer (the "**TOT**") arrangement. Under the TOT arrangement, the Group pays consideration for the right from the Grantor to operate the wastewater and recycled water treatment plants that have been built and receives in return a right to operate the service project concerned for a specified period of time (the "**Service Concession Period**") in accordance with the pre-established conditions set by the Grantor, and the service project should be transferred to the Grantor at zero consideration at the end of the Service Concession Period. Furthermore, the Group is required to complete certain upgrading and expansion works within the prescribed timelines as specified or approved by the Grantor.

The Group is generally entitled to use the facilities, however, the relevant governmental authority as the Grantor will control and regulate the scope of service that the Group must provide with the facilities, and retain the beneficial entitlement to any residual interest in the facilities at the end of the Service Concession Period. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to restore the facilities to a specified level of serviceability at the end of the Service Concession Period and arrangements for arbitrating disputes.

(i) Consideration given by the Grantor

Consideration received or receivable by the Group for the services rendered under service concession arrangement is recognised at its fair value as a financial asset or an intangible asset.

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantor for the services rendered; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset is accounted for in accordance with the policy set out for "Financial assets" in note 2.9.

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

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

Gains arising from the excess of final outcome of the future cash flows over the estimates adopted in the service concession arrangement is presented in the combined income statements in the period in which they arise. When the final outcome of the future cash flows falls short of the estimates adopted, the Group tests the intangible assets for impairment, and assesses the expected credit losses associated with the receivable under service concession arrangement, in accordance with the policy set out in note 2.8 and note 2.9(c) respectively.

(ii) Construction and upgrade services

The fair value of the construction and upgrade services under the concession arrangement is calculated as the estimated total construction cost plus a profit margin. The profit margins are valued by an independent qualified valuer, based on prevailing market rate applicable to similar construction services rendered in similar location at date of agreement.

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19.

(iii) Revenue relating to operating service

Revenue relating to operating service are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19. Costs for operating services are expensed in the period in which they are incurred.

(iv) Finance income

Finance income in relation to the service concession arrangement are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19.

(v) Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licences, that is to maintain the wastewater and recycled water treatment and water distribution plants it operates to a specified level of serviceability. These contractual obligations to maintain or restore the wastewater and reclaimed water treatment, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" in note 2.17.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are tested for impairment annually and when there is an indication that may be impaired. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets are classified as current assets if expected to be settled within 12 months or in the normal operating cycle of the business, otherwise, they are classified as non-current.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains/(losses), net".

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the income statement within "Other gains/(losses), net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in "Other gain/(losses), net" in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(c) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortised cost and financial assets at fair value through other comprehensive income and trade receivables and contract assets that contain significant financing component. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment on these financial assets are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

— actual or expected significant adverse changes in external credit rating of the debtors

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

— actual or expected significant changes in the operating results of the borrower

— significant increases in credit risk on other financial instruments of the same borrower

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

2.10 Inventories

Inventories primarily represents chemicals and are stated at the lower of cost and net realisable value.

Cost, being cost of purchase, is determined on a first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less after the end of the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction of production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use of sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the combined income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at each of the reporting dates in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central retirement benefit scheme operated by the local municipal or provincial government. The subsidiaries in the PRC are required to contribute a percentage of their payroll costs to the central retirement benefit scheme. The Group has no further payment obligations once the contributions have been paid.

(iii) Bonus plans

The Group recognises a provision where contractually obliged or when it prepares to declare discretionary bonus after evaluating employee performance as well as the financial performance of business units.

2.17 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company and Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the services and sales of recycle water in the ordinary course of the Group's activities. If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset. Specific criteria where revenue is recognised are described below.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

(i) Rendering of wastewater treatment operation services

Revenue from wastewater treatment operation services is recognised over the period when the services are rendered and the Group's performance provides all of the benefits received and consumed simultaneously by the customer.

(ii) Recycle water supply operation services

Revenue from recycle water supply operation services is recognised at a point in time, when a Group entity has delivered water to the customer; the customer has accepted the water; the Group has present right to payment and the collection of the consideration is probable.

(iii) Revenue from wastewater treatment construction services

Revenue from wastewater treatment construction services is recognised over time as the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. Thus, the Group satisfies a performance obligation over time, by reference to completion of the specific transaction

assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In determining the transaction price, the Group adjusts the amount of consideration for the effect of a financing component if it is significant.

(iv) Finance income

Finance income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

(vi) Management fees

Management fees are recognised over the period when the services are rendered.

2.20 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

(c) Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

2.21 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The Group recognises a contract asset for the right to consideration in exchange for goods or services that the Group has transferred to a customer, and the amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the payments from customer exceeds the revenue recognised to date, then the Group recognises a contract liability for the difference.

The Group recognises the costs of obtaining a contract with a customer within contract assets if the Group expects to recover those costs.

Costs to fulfil a contract comprise the cost directly related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfil a contract are recorded in contract assets if they are expected to be recovered. The amount is amortised on a systematic basis, consistent with the pattern of revenue recognition of the contract to which the asset relates.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risk: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign currency risk

The Group principally operates in the PRC with most of the transactions being settled in Renminbi ("**RMB**"), which is the functional currency of most of the group entities. Foreign currency risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies. The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the United States dollars ("**US$**") (the "**Non-functional currency**").

Fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional currency in which the group entities conducts business may affect the Group's financial position and results of operations. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position.

Sensitivity analysis

The sensitivity analysis includes Non-functional currency denominated monetary items and adjusts their translation at the year-end for a 1% change in Non-functional currency with all other variables held constant. If Non-functional currency had strengthened/weakened by 1% against the respective functional currencies of group entities, the net profit for the year/period of the Group would

decrease/increase by approximately HK$4,692,000, HK$4,574,000, HK$5,172,000 and HK$6,148,000 respectively for the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018.

(ii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk primarily arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest risk which is partially offset by cash held at variable rates. The Group's interest-bearing bank borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Sensitivity analysis

If the interest rates had been increased/decreased by 100 basis points at the end of the year/period and all other variables were held constant, the Group's profit after income tax would decrease/increase by approximately HK$5,191,000, HK$4,724,000, HK$4,702,000 and HK$1,404,000 respectively for the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018. The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represent management's assessment of a reasonably possible change in interest rate over the next twelve month period.

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The credit risk of the Group's financial assets, which mainly comprise cash and cash equivalents and restricted bank balances, receivable under service concession arrangement, trade and other receivables, amounts due from fellow subsidiaries, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(i) Credit risk of cash and cash equivalents and restricted bank balances

To manage this risk arising from cash and cash equivalents and restricted bank balances, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(ii) Credit risk of receivable under service concession arrangement and trade receivables

For receivable under service concession arrangement and trade receivables, the customers are primarily local government's related entities and management considers the credit risk is not high. The Group maintains frequent communications with the counterparties. Management has closely monitored the credit qualities and the collectability of these receivables and consider that the expected credit risks of them are minimal in view of the history of cooperation with them. For details, please refer to note 16 and 19.

(iii) Credit risk of other receivables and amounts due from fellow subsidiaries

Other receivables at the end of each reporting period were mainly guarantees placed at Social Security Bureau in accordance with local laws and regulations and rental deposits. The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the third party;
- significant changes in the expected performance and behaviour of the third party, including changes in the payment status of the third party.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 90 days of when they fail due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories a loan or receivable for write off when a debtor fails to make contractual payments/ repayable demanded greater than 120 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Based on historical experience, majority of the other receivables and amounts due from fellow subsidiaries were settled within 12 months after upon maturity, hence the expected credit loss is close to zero.

The Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward looking macroeconomic data.

No significant changes to estimation techniques or assumptions were made during the Track Record Period.

(c) Liquidity risk

Liquidity risk relates to the risk that the Company or the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company and the Group monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance and the Company's and the Group's operations and meet their short-term and long-term funding requirements. The Company and the Group rely on internally generated funding, borrowings and funding from intermediate holding company as significant sources of liquidity.

The maturity profile of the Group's and the Company's financial liabilities as at the reporting dates, based on the undiscounted contractual payments, were as follows:

Group	Less than 1 year or no fixed term of repayment	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2015					
Borrowings and interest thereon	88,239	80,937	326,829	752,659	1,248,664
Trade and other payables	64,230	5,228	—	—	69,458
Amount due to TCB	534,482	—	—	—	534,482
Amount due to a fellow subsidiary	4,771	—	—	—	4,771
Amounts due to related companies	6	—	—	—	6
At 31 December 2016					
Borrowings and interest thereon	89,752	96,478	320,617	593,591	1,100,438
Trade and other payables	54,097	11,371	—	—	65,468
Amount due to LGB (HK)	535,161	—	—	—	535,161
Amount due to a fellow subsidiary	4,467	—	—	—	4,467
Amounts due to related companies	13	—	—	—	13
At 31 December 2017					
Borrowings and interest thereon	122,386	109,242	355,940	513,140	1,100,708
Trade and other payable	133,635	6	—	—	133,641
Amount due to LGB (HK)	595,739	—	—	—	595,739
Amount due to a fellow subsidiary	4,780	—	—	—	4,780
Amounts due to related companies	146	—	—	—	146
At 30 April 2018					
Borrowings and interest thereon	113,765	114,301	374,871	548,204	1,151,141
Trade and other payable	106,739	126	—	—	106,865
Amount due to LGB (HK)	602,284	—	—	—	602,284
Company					
At 30 April 2018					
Trade and other payable	8,609	—	—	—	8,609
Amounts due to subsidiaries	2,178	—	—	—	2,178

(d) Fair value measurements

(i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include receivable under service concession arrangement, restricted bank balances, cash and cash equivalents, trade and other receivables, amounts due from/to group and related companies, borrowings, and trade and other payables. The directors consider that the carrying amount of these financial assets and liabilities approximate their fair values at 31 December 2015, 2016 and 2017, and 30 April 2018.

(ii) Financial instruments measured at fair value

Fair value hierarchy

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets measured at fair value in the Historical Financial Information are grouped into the fair value hierarchy as follows:

Level 2	**As at 31 December**			**As at 30 April**
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial asset at fair value through profit or loss	82,181	58,997	66,873	16,926

There have been no transfers between any levels during the Track Record Period.

3.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged for the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018.

The capital structure of the Group consists of net debt, which includes various types of borrowings, such as bank borrowings and amount due to TCB/LGB (HK), less cash and cash equivalents; and equity, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

The Group monitors its capital structure on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt less cash and cash equivalents.

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Borrowings	734,840	714,553	768,457	799,661
Amount due to TCB/LGB (HK)	534,482	535,161	595,739	602,284
Total debt	1,269,322	1,249,714	1,364,196	1,401,945
Less: Cash and cash equivalent	(37,972)	(80,214)	(130,141)	(199,745)
Net debt	1,231,350	1,169,500	1,234,055	1,202,200
Total equity	72,690	80,333	181,486	269,819
Total capital	1,304,040	1,249,833	1,415,541	1,472,019
Gearing ratio	94.4%	93.6%	87.2%	81.7%

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates ad assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Service concession arrangement

As explained in notes 2.6(i) and 2.7, the Group recognises the consideration received or receivable in exchange for the services as a financial asset and/or an intangible asset under the service concession arrangement. If the Group is paid for the services partly by a financial asset and partly by any intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible assets component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, the operating margin (39.0%), interest rate (6.75%), expected future income generated from these infrastructure over its Service Concession Period including future guaranteed receipts and unguaranteed receipts, treated effluent volume, inflation of operating costs (3.0%), and also to choose a suitable post-tax discount rate (9.78%) throughout the Track Record Period in order to calculate the present value of the financial asset component and intangible assets component. These estimates are determined by the Group's management based on their experience and assessment on current and future market condition. Any change in the expected cash flows will result in change in the carrying values of the financial asset component, and the intangible asset component accordingly.

The fair value of the upgrade services under the service concession arrangement is calculated as the estimated total construction cost plus a profit margin. The construction margin (10.0%) is adopted by an independent qualified valuer throughout the Track Record Period, based on prevailing market rate applicable to similar construction service rendered. Revenue relating to construction or upgrade services are accounted for in accordance with the accounting policy in note 2.19.

Imputed interest income is recognised from time to time on receivable under the service concession arrangement on an accrual basis using the effective interest method by discounting the estimated future cash receipts over the Service Concession Period at the estimated effective interest rate computed at initial recognition.

According to the TOT agreement entered into by the Group and the Grantor in September 2011, the Grantor will compensate the Group if there is any change in the tax rules of Business Tax ("**BT**") or Value-Added Tax ("**VAT**") during the Service Concession Period leading to increase in the Group's operating costs.

On 9 December 2008, the Ministry of Finance and the State Administration of Taxation jointly issued Notice on Value Added Tax Policy Regarding Comprehensive Utilisation of Resources and Other Products Caishui [2008] No.156 (hereinafter referred to as Caishui [2008] No.156). According to Caishui [2008] No.156, with effect from 1 January 2009, taxpayers engaged in the wastewater processing business and sales of reclaimed water are eligible for 100% VAT exemption if they satisfy the requirements as set out in Caishui [2008] No.156 and obtain the Certificate of Comprehensive Utilisation of Resources. On 12 June 2015, the Ministry of Finance and the State Administration of Taxation issued the Notice on Preferential Value-added Tax Catalogue for Products and Services Involving Comprehensive Utilisation of Resources, Caishui [2015] No.78 (hereinafter referred to as Caishui [2015] No.78). According to Caishui [2015] No.78, taxpayers engaged in the wastewater processing business and sales of reclaimed water are required to pay VAT with effect from 1 July 2015, with 70% and 50% of the VAT in relation to the wastewater processing business and sales of reclaimed water respectively refunded upon VAT being paid.

During the six months ended 30 June 2015, the Group was exempted from VAT according to Caishui [2008] No.156. Since 1 July 2015, 70% and 50% of the VAT paid by the Group in relation to the wastewater processing business and the sales of reclaimed water respectively were refunded according to Caishui [2015] No.78, and the Group was entitled to claim and have claimed the Grantor for the balance of the VAT payment under the TOT agreement. Hence management considered there is reasonable assurance to assume these compensations will be continuously received throughout the Service Concession Period. When the expectation is different from the original estimate, such differences will impact the segregation of the consideration between the financial asset component and the intangible asset component.

The assumptions used in the assessment are highly judgemental and interrelated, the change of one key assumption will trigger corresponding changes in other assumptions. For illustration purposes, a hypothetical change in these key assumptions would have the following changes to the financial position of the Group for the years ended 31 December 2015, 2016, and 2017 and the four months ended 30 April 2018.

As at and for the year ended 31 December 2015

Key assumptions	**Hypothetical changes**	**Receivable under service concession arrangement increase/(decrease)** *HK$'000*	**Intangible assets increase/(decrease)** *HK$'000*	**Profit after tax increase/ (decrease)** *HK$'000*
Operating margin	–1.0%	9,680	(7,731)	331
	+1.0%	(9,680)	7,731	(331)
Interest rate	–0.5%	(10,046)	(3,392)	(2,661)
	+0.5%	16,772	(2,156)	2,873
Construction margin	–0.5%	1,871	(1,826)	(162)
	+0.5%	(1,871)	1,826	163
Expected tariffs on future receipts	–2.0%	922	(2,730)	(508)
	+2.0%	3,125	3,074	1,614
Inflation of operating costs	+0.5%	(22,656)	(4,217)	5,868
	–0.5%	19,755	3,066	(5,046)
Discount rate	+0.5%	2,218	(1,771)	76
	–0.5%	(2,349)	1,876	(80)
VAT refund	Reduction of 30%	(4,705)	(5,122)	(2,563)

As at and for the year ended 31 December 2016

Key assumptions	**Hypothetical changes**	**Receivable under service concession arrangement increase/(decrease)** *HK$'000*	**Intangible assets increase/(decrease)** *HK$'000*	**Profit after tax increase/ (decrease)** *HK$'000*
Operating margin	–1.0%	9,376	(7,201)	274
	+1.0%	(9,376)	7,201	(274)
Interest rate	–0.5%	(12,379)	(3,159)	(2,316)
	+0.5%	18,859	(2,008)	2,480
Construction margin	–0.5%	1,791	(1,707)	34
	+0.5%	(1,791)	1,707	(34)
Expected tariffs on future receipts	–2.0%	(76)	(2,542)	(725)
	+2.0%	5,735	2,863	2,188
Inflation of operating costs	+0.5%	(29,274)	(3,928)	6,297
	–0.5%	25,482	2,856	(5,459)
Discount rate	+0.5%	2,148	(1,650)	63
	–0.5%	(2,275)	1,747	(67)
VAT refund	Reduction of 30%	(8,875)	(4,770)	(3,481)

As at and for the year ended 31 December 2017

Key assumptions	**Hypothetical changes**	**Receivable under service concession arrangement increase/(decrease)** *HK$'000*	**Intangible assets increase/(decrease)** *HK$'000*	**Profit after tax increase/ (decrease)** *HK$'000*
Operating margin	–1.0%	11,790	(8,985)	349
	+1.0%	(11,790)	8,985	(349)
Interest rate	–0.5%	(16,997)	(3,941)	(3,146)
	+0.5%	25,204	(2,505)	3,405
Construction margin	–0.5%	1,537	(2,170)	(527)
	+0.5%	(1,537)	2,170	528
Expected tariffs on future receipts	–2.0%	(511)	(3,172)	(643)
	+2.0%	8,374	3,572	2,003
Inflation of operating costs	+0.5%	(40,253)	(4,900)	7,023
	–0.5%	35,170	3,563	(6,136)
Discount rate	+0.5%	2,701	(2,058)	80
	–0.5%	(2,861)	2,180	(85)
VAT refund	Reduction of 30%	(13,013)	(5,952)	(3,184)

As at and for the four months ended 30 April 2018

Key assumptions	Hypothetical changes	Receivable under service concession arrangement increase/(decrease)	Intangible assets increase/(decrease)	Profit after tax increase/ (decrease)
		HK$'000	*HK$'000*	*HK$'000*
Operating margin	–1.0%	12,667	(9,667)	71
	+1.0%	(12,667)	9,667	(71)
Interest rate	–0.5%	(18,404)	(4,241)	(719)
	+0.5%	27,214	(2,695)	758
Construction margin	–0.5%	1,479	(2,072)	(211)
	+0.5%	(1,479)	2,072	211
Expected tariffs on future receipts	–2.0%	(246)	(3,413)	118
	+2.0%	9,426	3,843	675
Inflation of operating costs	+0.5%	(45,154)	(5,273)	2,755
	–0.5%	39,506	3,834	(2,426)
Discount rate	+0.5%	2,902	(2,215)	16
	–0.5%	(3,073)	2,345	(17)
VAT refund	Reduction of 30%	(15,800)	(6,404)	(1,929)

4.2 Useful lives of property, plant and equipment and intangible assets

The Group depreciates the property, plant and equipment, amortises the intangible assets in accordance with the accounting policies stated in notes 2.5 and 2.6 respectively. The estimated useful lives reflect the director's estimate of the periods that the Group intends to derive future economic benefits from the use of these assets.

4.3 Impairment of receivables

Provision for expected credit loss is made when the Group will not collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision reflects either 12-month expected credit losses, or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk. Judgement has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of debtors and the likelihood of recovery assessed on a combination of collective and individual bases as relevant. While provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to profit or loss. Key judgements on provisions made across businesses are disclosed in note 19.

4.4 Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5 Revenue and segment information

Management has determined the operating segments based on the information reviewed by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of directors of TIL during the Track Record Period.

Operating segments are reported in the manner consistent with the internal reporting provided to the CODM. The Group is subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole. The Board of directors of TIL considers the performance assessment of the Group should be based on the profit before income tax of the Group as a whole and regards the Group as a single operating segment and reviews Historical Financial Information accordingly. Therefore, the Board of directors of TIL considers these to be only one operating segment under the requirements of HKFRS 8 "Operating Segments".

The Group provides wastewater treatment services in the PRC during the Track Record Period.

An analysis of the Group's revenue from contracts with customers is as follows:

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue					
Wastewater treatment operation services	73,194	87,571	76,590	26,294	41,470
Recycle water supply operation services	6,299	5,189	5,428	1,354	2,118
Wastewater treatment construction services	91,243	32,647	197,249	8,428	61,546
Finance income from service concession arrangement	78,694	80,938	86,002	27,381	32,489
Management fees from a related company *(note 30(a))*	1,091	1,074	1,112	359	750
	250,521	207,419	366,381	63,816	138,373
Timing of revenue recognition					
At a point in time	6,299	5,189	5,428	1,354	2,118
Over time	165,528	121,292	274,951	35,081	103,766
	171,827	126,481	280,379	36,435	105,884
Finance income from service concession arrangement	78,694	80,938	86,002	27,381	32,489
	250,521	207,419	366,381	63,816	138,373

Segment assets and liabilities

No assets and liabilities are included in the Group's segment reporting that are submitted to and reviewed by the CODM internally. Accordingly, no segment assets and liabilities are presented.

Information about major customers

External customers, who contribute over 10% of total revenue of the Group for the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018, are as follows:

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Customer A	243,131	201,156	359,841	62,103	135,505

Geographical information

During the Track Record Period, all of the revenue was from customers in the PRC.

In relation to non-current assets held by the Group (primarily represented by property, plant and equipment, receivable under service concession arrangement, intangible assets and other non-current assets as detailed in notes 15, 16, 17 and 27), these are located in the PRC.

Contract assets and liabilities

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract assets — receivable under service concession arrangement *(note (i))*				
— Non-current	1,183	32,102	191,860	239,902
— Current	—	—	34,761	42,514
Contract assets — fulfilment cost for construction services				
— Current *(note (ii))*	—	5,698	11,837	9,709
Contract liabilities — advances from customers for wastewater treatment operation services				
— Current *(note (iii))*	2,216	9,607	7	—

Notes:

(i) Payment for wastewater treatment construction services is not due from the customer (i.e. as trade receivables) until the construction services are completed. As a result, a contract asset is recognised over the period in which the construction services are performed to represent the entity's right to consideration for the services transferred to date. Contract assets will be subsequently reclassified as trade receivables after the plant has commenced its operation and the rights to bill the customer has established. Contract assets — receivable under service concession arrangement have increased due to the construction cost incurred for the upgrade and expansion of wastewater facilities for Plant 1, Plant 2 and Plant 4.

(ii) The Group recognised a contract asset in relation to the fulfilment costs incurred for the construction services which represents advanced payments to subcontractors before the provision of their services. These costs will be amortised over the period in which the construction services are performed, consistent with the pattern of recognition of the wastewater treatment construction services revenue. Contract assets — fulfilment cost for construction services have increased/decreased due to the higher/lower of payment to sub-contractors for the upgrade and expansion of wastewater facilities for Plant 1, Plant 2 and Plant 4.

There were no impairment losses recognised on any contract asset in the Track Record Period.

(iii) Revenue relating to wastewater treatment operation services is recognised over time although the customer pays upfront payment for these services. A contract liability is recognised for revenue relating to the wastewater treatment operation services at the time of the up-front payment and is released over the service period. The change in amount is due to higher or lower up-front payment by the Grantor to the Group in 2016, 2017 and for the four months ended 30 April 2018 respectively. Wastewater treatment operation services revenue was and will be recognised during the years ended 31 December 2016, 2017, and year ending 31 December 2018.

Transaction price allocated to the remaining performance obligation

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the Track Record Period:

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Wastewater treatment construction services	909,063	820,141	674,953	638,002
Wastewater treatment operation services	6,145,110	5,669,164	5,987,490	6,162,894

Management expects that the transaction price allocated to the unsatisfied performance obligation for wastewater treatment construction services as of 31 December 2015, 2016 and 2017 and 30 April 2018 will be recognised as revenue during 2016 to 2020.

The transaction price allocated to the unsatisfied performance obligation for wastewater treatment operation services represents the expected future income generated over the Service Concession Period including future guaranteed receipts and unguaranteed receipts. The amount as of 31 December 2015, 2016 and 2017 and 30 April 2018 will be recognised as revenue over the remaining periods of the Service Concession Period.

6 Other income

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest income	296	429	641	148	347
VAT refund *(note (a))*	1,970	1,795	1,944	284	345
Others	1,094	290	262	78	69
	3,360	2,514	2,847	510	761

(a) During the six months ended 30 June 2015, the Group was exempted from VAT according to Caishui [2008] No.156. Since 1 July 2015, 70% and 50% of the VAT paid by the Group in relation to the wastewater processing business and the sales of recycle water respectively were refunded according to Caishui [2015] No.78, and the Group was entitled to claim and have claimed from the Grantor the balance of the VAT payment under the TOT agreement. Hence the Group recognised these VAT refunds attributable to intangible assets as other income during the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018.

7 Other gains/(losses), net

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net gains on disposal of property, plant and equipment	52	118	7	—	—
Net gains on financial assets at fair value through profit or loss	1,401	1,540	913	675	476
Net foreign exchange gains/(losses)	1,917	(666)	(4,001)	(1,761)	(2,453)
Gain on deregistration of a subsidiary	—	—	—	—	144
Others	(12)	(10)	(2)	(3)	(43)
	3,358	982	(3,083)	(1,089)	(1,876)

8 Expenses by nature

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Employee benefit expenses *(note 9)*					
— Cost of sales	10,861	10,189	8,458	3,429	4,048
— General and administrative expenses	3,961	4,726	5,364	2,262	2,260
Depreciation of property, plant and equipment *(note 15)*	773	256	215	67	120
Amortisation of intangible assets *(note 17)*	1,874	1,954	2,008	639	864
Construction cost	82,949	29,679	179,317	7,659	55,951
Costs of wastewater treatment operation and recycle water supply operation services					
— Chemical	12,507	22,662	11,796	4,716	7,005
— Utility	17,437	19,080	18,607	6,083	7,969
— Others	7,702	8,168	10,766	3,304	4,557
Legal and professional fee	680	800	56	9	18
Consultancy fee to a related company *(note 30(a))*	635	393	—	—	—
Auditor's remuneration	260	256	251	144	147
Rental expenses	344	333	339	109	123
Travelling and transportation expenses	1,530	2,416	2,203	533	381
Repair and maintenance costs	2,580	3,142	2,451	969	361
Office expenses	571	505	651	239	203
[REDACTED] expenses	—	—	—	—	8,374
Others	946	809	1,132	314	631
	145,610	105,368	243,614	30,476	93,012

9 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Wages and salaries	10,267	10,386	10,158	4,346	4,640
Social security expenses	3,005	2,810	2,298	796	948
Other staff benefits and welfare	1,550	1,719	1,366	549	720
	14,822	14,915	13,822	5,691	6,308

These subsidiaries are required to contribute certain percentage of payroll costs as set by local municipal governments to each scheme locally to fund the retirement benefit scheme for the Track Record Period.

(a) Five highest paid individuals:

The five individuals during the Track Record Period whose emoluments were the highest in the Group include Nil, 1, 1, 1 and 1 director for the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018 respectively, whose emoluments are reflected in note 10. The emoluments payable to the remaining 5, 4, 4, 4 and 4 individuals for the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018 respectively, are as follows:

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Wages and salaries	1,146	1,418	1,854	848	945
Social security expenses	261	162	181	57	27
	1,407	1,580	2,035	905	972

The emoluments of the remaining non-directors individuals fell within the following bands:

	Number of individuals				
	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
				(Unaudited)	
Emolument bands					
Nil to HK$1,000,000	5	4	4	4	4

10 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' emoluments

The emoluments paid or payable to the directors of the Group are as follows:

Year ended 31 December 2015

Name	Fees *HK$'000*	Salary *(note (1))* *HK$'000*	Discretionary bonuses *(note (2))* *HK$'000*	Allowances and benefits in kind *HK$'000*	Employer's contribution to a retirement benefit scheme *HK$'000*	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking *(note (3))* *HK$'000*	Total *HK$'000*
Chairman, non-executive director							
Mr. CS Lim *(note (3))*	–	–	–	–	–	–	–
Executive director							
Mr. Wong Kok Sun *(notes (3) and (4))*	–	148	25	211	–	–	384
Total	–	148	25	211	–	–	384

Year ended 31 December 2016

Name	Fees *HK$'000*	Salary *(note (1))* *HK$'000*	Discretionary bonuses *(note (2))* *HK$'000*	Allowances and benefits in kind *HK$'000*	Employer's contribution to a retirement benefit scheme *HK$'000*	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking *(note (3))* *HK$'000*	Total *HK$'000*
Chairman, non-executive director							
Mr. CS Lim *(note (3))*	–	–	–	–	–	–	–
Executive director							
Mr. Wong Kok Sun *(notes (3) and (4))*	–	559	–	220	–	–	779
Total	–	559	–	220	–	–	779

Year ended 31 December 2017

Name	Fees	Salary *(note (1))*	Discretionary bonuses *(note (2))*	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking *(note (3))*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman, non-executive director							
Mr. CS Lim *(note (3))*	–	–	–	–	–	–	–
Executive director							
Mr. Wong Kok Sun *(notes (3) and (4))*	–	982	164	258	–	–	1,404
Total	–	982	164	258	–	–	1,404

Four months ended 30 April 2017

Name	Fees	Salary *(note (1))*	Discretionary bonuses *(note (2))*	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking *(note (3))*	Total
	HK$'000 (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)
Chairman, non-executive director							
Mr. CS Lim *(note (3))*	–	–	–	–	–	–	–
Executive director							
Mr. Wong Kok Sun *(notes (3) and (4))*	–	324	162	83	–	–	569
Total	–	324	162	83	–	–	569

Four months ended 30 April 2018

Name	Fees	Salary	Discretionary bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking	Total
	HK$'000	*(note (1))* *HK$'000*	*(note (2))* *HK$'000*	*HK$'000*	*HK$'000*	*(note (3))* *HK$'000*	*HK$'000*
Chairman, non-executive director							
Mr. CS Lim *(note (3))*	–	–	–	–	–	–	–
Executive director							
Mr. Wong Kok Sun *(notes (3) and (4))*	–	331	166	92	–	–	589
Total	–	331	166	92	–	–	589

Notes:

(1) Salary paid to a director is generally an emolument paid or receivable in respect of that person's other services in connection with the management of the affairs of the Company or its subsidiaries undertakings.

(2) Discretionary bonuses are determined based on the financial performance of the Group and the performance of each individual.

(3) During the Track Record Period, Mr. CS Lim and Mr. Wong Kok Sun received emoluments from TCB, part of which is in respect of their services to the Group. No apportionment of such emoluments has been made as it is considered that it is impracticable to apportion the amounts between the services to the Group and the services to the ultimate holding company.

(4) During the Track Record Period, the payments made to Mr. Wong Kok Sun were paid in respect to his capacity as chief executive officer. He is appointed as executive director of the Company on 11 May 2018.

(b) Directors' retirement and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the Track Record Period.

(c) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the Track Record Period.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Save as disclosed in note 30 in the Historical Financial Information, there are no loans, quasi-loans and other dealings in favour of directors, controlled body corporate by and connected entities with such directors during the Track Record Period.

(e) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in note 30, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year/period or at any time during the Track Record Period.

11 Finance costs

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest expenses on borrowings	50,169	42,024	41,299	13,083	14,638
Interest expenses on loans from TCB and LGB (HK) *(note 30(a))*	806	809	809	266	268
	50,975	42,833	42,108	13,349	14,906
Less: interest expenses capitalised as intangible assets	(140)	(15)	(136)	(44)	(22)
Finance costs	50,835	42,818	41,972	13,305	14,884

Finance costs have been capitalised at average interest rate of 7.01%, 5.64%, 5.64%, 5.64% and 5.64% per annum for the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018 respectively.

12 Income tax expense

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Deferred income tax *(note 26)*	15,741	17,174	21,659	5,672	9,974

Hong Kong profits tax has not been provided as the Group had no estimated assessable profit for the Track Record Period.

Taxation on Mainland China profits has been calculated on the estimated taxable profits at the rate of 25%.

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the Mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits/losses of the group entities as follows:

	Year ended 31 December			Four months ended 30 April	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before income tax	60,794	62,729	80,559	19,456	29,362
Taxation at an applicable rate of 25%	15,199	15,682	20,140	4,864	7,341
Difference arising from different tax jurisdiction	(94)	153	525	221	258
Incomes not subject to income tax	(266)	(57)	(1)	—	(225)
Expenses not deductible for tax purposes	399	642	990	513	2,600
Tax losses not recognised	530	754	43	74	—
Others	(27)	—	(38)	—	—
Income tax expense	15,741	17,174	21,659	5,672	9,974

13 Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Reorganisation and the preparation of the results for each of the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018 on a combined basis as disclosed in note 1.3 above.

14 Dividends

No dividend has been paid or declared by the Company since its incorporation.

15 Property, plant and equipment

	Furniture, fixture and equipment	Motor vehicles	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net book value				
At 1 January 2015	1,103	874	36	2,013
Additions	11	—	4	15
Depreciation	(659)	(100)	(14)	(773)
Disposals	(1)	—	—	(1)
Currency translation differences	(25)	(37)	(1)	(63)
At 1 January 2016	429	737	25	1,191
Additions	209	—	31	240
Depreciation	(173)	(74)	(9)	(256)
Disposals	(1)	—	(7)	(8)
Currency translation differences	(32)	(44)	(2)	(78)
At 1 January 2017	432	619	38	1,089
Additions	730	—	6	736
Depreciation	(128)	(75)	(12)	(215)
Disposals	(1)	—	—	(1)
Currency translation differences	46	43	2	91

	Furniture, fixture and equipment *HK$'000*	**Motor vehicles** *HK$'000*	**Computer equipment** *HK$'000*	**Total** *HK$'000*
At 1 January 2018	1,079	587	34	1,700
Additions	66	—	—	66
Depreciation	(89)	(26)	(5)	(120)
Disposal of subsidiaries	(13)	(26)	(3)	(42)
Currency translation differences	39	21	2	62
At 30 April 2018	1,082	556	28	1,666
At 1 January 2015				
Cost	2,788	1,609	295	4,692
Accumulated depreciation	(1,685)	(735)	(259)	(2,679)
Net book value	1,103	874	36	2,013
At 31 December 2015				
Cost	2,863	1,537	286	4,686
Accumulated depreciation	(2,434)	(800)	(261)	(3,495)
Net book value	429	737	25	1,191
Cost	2,874	1,439	229	4,542
Accumulated depreciation	(2,442)	(820)	(191)	(3,453)
Net book value	432	619	38	1,089
At 31 December 2017				
Cost	3,810	1,540	251	5,601
Accumulated depreciation	(2,731)	(953)	(217)	(3,901)
Net book value	1,079	587	34	1,700
At 30 April 2018				
Cost	3,745	1,072	165	4,982
Accumulated depreciation	(2,663)	(516)	(137)	(3,316)
Net book value	1,082	556	28	1,666

Depreciation was charged to cost of sales and general and administrative expenses during the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018 as below:

	Year ended 31 December			Four months ended 30 April	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Cost of sales	609	173	188	54	115
General and administrative expense	164	83	27	13	5
Depreciation of property, plant and equipment	773	256	215	67	120

16 Receivable under service concession arrangement

The Group has entered into a service concession arrangement with a government authority in the PRC under a TOT model in respect of its wastewater treatment services based on the TOT Agreement dated September 2011 (the "**Service Concession Agreement**"). This service concession arrangement involves the Group as an operator (i) paying a specific amount for the wastewater treatment plants (collectively, the "**Facilities**") for an arrangement under a TOT model; and (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authority for 30 years from 21 September 2011, and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism as defined in the Service Concession Agreement.

The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authority as the Grantor will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the Service Concession Period.

The service concession arrangement is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Period and arrangements for arbitrating disputes.

As further explained in the accounting policy for "Service concession arrangement" set out in note 2.7 to the Historical Financial Information, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (service concession) or a financial asset (receivable under service concession arrangement) or a combination of both, as appropriate.

The service concession arrangement with the government authority is recognised as a combination of financial asset and intangible asset since the project had an unconditional contractual right to receive cash from the government authority based on the guaranteed wastewater treatment volume, and a right to charge the government authority on the additional wastewater treatment volume.

The following is the summarised information of the financial asset component (receivable under service concession arrangement) with respect to the Group's service concession arrangement:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Receivable under service concession arrangement				
— Current	114,686	236,388	251,359	274,401
— Non-current	1,111,732	986,953	1,153,512	1,221,986
	1,226,418	1,223,341	1,404,871	1,496,387

The collection of receivables under the service concession arrangement is closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under the service arrangement are future billable receivables. They were mainly due from a governmental authority in the PRC, as the Grantor in respect of the Group's service concession arrangement. All of these financial assets are considered to have low credit risk as they have a low risk of default and the counterparty has strong capability to meet its contractual cash flow obligations in the near term. Therefore, impairment provision was limited to twelve months expected losses and estimated to be minimal.

17 Intangible assets

	Service concession right	**Computer softwares**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Net book value			
At 1 January 2015	50,614	10	50,624
Additions	4,818	—	4,818
Amortisation	(1,869)	(5)	(1,874)
Currency translation differences	(2,372)	—	(2,372)
At 1 January 2016	51,191	5	51,196
Additions	1,688	—	1,688
Amortisation	(1,950)	(4)	(1,954)
Currency translation differences	(3,248)	—	(3,248)
At 1 January 2017	47,681	1	47,682
Additions	10,247	—	10,247
Amortisation	(2,008)	—	(2,008)
Currency translation differences	3,575	—	3,575
At 1 January 2018	59,495	1	59,496
Additions	3,155	—	3,155
Amortisation	(863)	(1)	(864)
Currency translation differences	2,123	—	2,123
At 30 April 2018	63,910	—	63,910
At 1 January 2015			
Cost	55,859	23	55,882
Accumulated amortisation	(5,245)	(13)	(5,258)
Net book value	50,614	10	50,624
At 31 December 2015			
Cost	58,013	22	58,035
Accumulated amortisation	(6,822)	(17)	(6,839)
Net book value	51,191	5	51,196
At 31 December 2016			
Cost	55,932	20	55,952
Accumulated amortisation	(8,251)	(19)	(8,270)
Net book value	47,681	1	47,682

	Service concession right	Computer softwares	Total
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2017			
Cost	70,385	22	70,407
Accumulated amortisation	(10,890)	(21)	(10,911)
Net book value	59,495	1	59,496
At 30 April 2018			
Cost	76,205	23	76,228
Accumulated amortisation	(12,295)	(23)	(12,318)
Net book value	63,910	—	63,910

Amortisation was charged to cost of sales during the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018.

The intangible assets not yet available for use ("IA not in use") of the Group represents the intangible assets recognised during but before the completion of upgrading and expansion phase of the wastewater treatment plants. During the upgrading and expansion phase of the wastewater treatment plants, intangible asset is recognised to the extent that the right to charge users or local governments is depended upon the usage or amount of services rendered, which is not an unconditional right to receive cash. The Group is entitled to an increment in the wastewater treatment service fees by upward revisions in the tariff and basic volume for the calculation of the wastewater treatment service fees upon completion of the upgrade and expansion. Therefore, intangible assets recognised during the upgrading and expansion phase are not yet available for use until the completion.

Impairment tests of IA not in use

The Group carries out its impairment review on IA not in use by comparing the recoverable amounts to the carrying amounts as of the end of each reporting period or when there is impairment indicator. The recoverable amount was determined based on fair value less costs of disposals calculations. These calculations used post–tax cash flow projections based on financial budgets approved by management covering the Service Concession Period. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industry and provided forecast based on past performance and their expectation of future business plans and market developments.

The Group reviews the individual IA not in use based on different wastewater treatment plants which the assets belong to. The following is a summary of aggregated IA not in use as of the end of each reporting period:

	31 December 2015	31 December 2016	31 December 2017	30 April 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
IA not in use	62	1,618	5,974	5,408

Impairment review on the IA not in use of the Group has been conducted by the management as at 31 December 2015, 2016 and 2017 and 30 April 2018, according to HKAS 36 "Impairment of Assets". For the purposes of impairment review, the recoverable amount is determined based on fair value less costs of disposals calculations, which is included in level 3 fair value hierarchy inputs. The calculations use cash flow projections based on business plan for the purpose of impairment reviews covering the Service Concession Period.

The key assumptions used in calculating recoverable amount of IA not in use are as follows:

	31 December 2015	31 December 2016	31 December 2017	30 April 2018
Annual tariff growth rate	1.5%	1.5%	1.5%	1.5%
Post-tax discount rate	8.9%	9.0%	10.2%	9.87%

Recoverable amounts of IA not in use were determined by the management based on past performance and adjusted for its expectation for market development. The expected annual tariff growth rates adopted for the recoverable amount determination is consistent with the business plan of the Group. Post-tax discount rates reflect market assessments of the time values and the specific risks relating to the asset.

No impairment is considered necessary based on the impairment tests as of 31 December 2015, 2016, 2017 and 30 April 2018.

The recoverable amounts of the IA not in use are shown as below:

	31 December 2015	31 December 2016	31 December 2017	30 April 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recoverable amount	126	3,615	10,624	6,597

The headroom of the IA not in use are shown as below:

	31 December 2015	31 December 2016	31 December 2017	30 April 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Headroom	64	1,997	4,650	1,189

The Group performs sensitivity analysis based on the assumption that annual revenue growth rate or the discount rates have been changed. Had the estimated key assumptions during the forecast period been changed by reasonable possible changes as below, the headroom would be decreased by as below:

	31 December 2015	31 December 2016	31 December 2017	30 April 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue growth rate decrease by 0.5%	64	1,085	4,192	258
Discount rate increases by 0.5%	14	226	2,912	265

Reasonable possible changes in key assumptions would not lead to impairment as of 31 December 2015, 2016 and 2017 and 30 April 2018.

18 Inventories

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Consumables — chemicals	440	269	364	370

No provision was made by the Group on inventories during the Track Record Period.

The cost of inventories recognised as expenses and included in cost of sales amounted to approximately HK$12,507,000, HK$22,662,000, HK$11,796,000, HK$4,716,000 and HK$7,005,000 for the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2017 and 2018 respectively.

19 Trade and other receivables

	As at 31 December			As at 30 April	As at 30 April
	2015	2016	2017	2018	2018
		Group			Company
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	816	902	17,168	56,994	—
Other receivables	2,427	1,891	5,305	5,445	—
Prepayment	2,305	2,470	1,816	4,968	2,413
Fulfilment cost for construction services	—	5,698	11,837	9,709	—
	5,548	10,961	36,126	77,116	2,413

Expected credit losses

The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The expected credit loss is minimial as the majority of the trade and other receivables are due from governmental authorities in the PRC which has no recent history of default.

In general, the Group grants credit periods of within 5-20 days to its customers. Aging analysis of gross trade receivables at the respective reporting dates, based on the invoice dates are as follows:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–30 days	816	504	17,147	23,619
31–60 days	—	392	19	24,582
61–90 days	—	5	—	8,791
Over 90 days	—	1	2	2
	816	902	17,168	56,994

The trade and other receivables are measured at amortised cost. The carrying amount of trade and other receivables approximates their fair values and are mainly denominated in RMB.

The maximum exposure to credit risk at each reporting date is the carrying value of trade and other receivables.

20 Cash and bank balances

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current				
Restricted bank balances *(note (i))*	4,776	4,472	4,785	4,957
Current				
Restricted bank balances *(note (ii))*	—	—	6,580	6,816
Cash and cash equivalents	37,972	80,214	130,141	199,745
	42,748	84,686	141,506	211,518

The cash and bank balances are denominated in RMB, US$, HK$ and Singapore dollars.

The conversion of RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

Note (i): Amount represented bank balances held at bank for guarantee for service concession arrangement. Such bank balances will be released after the expiry of the service concession arrangement.

Note (ii): Amount represented the restricted bank balances for note payables (note 24).

21 Share capital

The Group

Combined capital during the Track Record Period represents the combined share capital of the Company and TIL.

The Company

	Number of ordinary shares	Share capital
		HK$'000
Authorised:		
At the date of incorporation and 30 April 2018 (HK$0.01 per share)	38,000,000	380
Issued and fully paid:		
At the date of incorporation and 30 April 2018 (HK$0.01 per share)	1	—

22 Reserves

	Exchange reserves	Capital reserve	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2015	14,448	—	14,448
Currency translation differences	(26,661)	—	(26,661)
At 31 December 2015	(12,213)	—	(12,213)
Currency translation differences	(38,051)	—	(38,051)
At 31 December 2016	(50,264)	—	(50,264)
Currency translation differences	42,494	—	42,494
At 1 January 2018	(7,770)	—	(7,770)
Currency translation differences	27,080	—	27,080
Deregistration of a subsidiary	(144)	—	(144)
Disposal of subsidiaries *(Note 32)*	(1,291)	30,506	29,215
At 30 April 2018	17,875	30,506	48,381

23 Borrowings

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current				
Long-term borrowings — secured	700,645	673,939	700,356	743,124
Current				
Current portion of long-term borrowings — secured	17,479	26,640	48,960	50,750
Short-term borrowings — unsecured	16,716	13,974	19,141	5,787
	734,840	714,553	768,457	799,661

The effective annual interest rates at each of the reporting dates are as follows:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Short-term borrowings	5.58%–7.03%	5.00%–6.44%	5.00%	5.00%
Long-term borrowings	5.49%–7.21%	5.39%–6.49%	5.39%–5.90%	5.39%–5.90%

The Group's bank borrowings were repayable as follows:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	34,195	40,614	68,101	56,537
Between 1 and 2 years	28,114	45,116	58,431	60,671
Between 2 and 5 years	160,580	185,389	230,982	242,580
Over 5 years	511,951	443,434	410,943	439,873
	734,840	714,553	768,457	799,661

The Group's long-term borrowings as at 31 December 2015, 2016 and 2017, and 30 April 2018 were secured by contractual rights to receive revenue generated by the Group and the land use right granted by the government in relation to parcel of land of which the wastewater treatment plants are situated. All bank borrowings are measured at amortised cost. The balances approximate their fair values and are denominated in RMB.

24 Trade and other payables

	As at 31 December			As at 30 April	As at 30 April
	2015	2016	2017	2018	2018
		Group			Company
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	30,763	31,750	89,838	84,678	—
Advances from customers	3,603	20,182	12	—	—
Retention payables	6,733	6,443	8,608	3,241	—
Note payables	—	—	6,580	6,816	—
Other payables and accruals	32,445	27,586	29,024	18,902	8,609
	73,544	85,961	134,062	113,637	8,609

The carrying amounts of trade and other payables approximated their fair values as at 31 December 2015, 2016 and 2017 and 30 April 2018 and are denominated in RMB and HK$.

The aging analysis of trade payables based on invoices dates is as follows:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–30 days	13,449	4,422	26,364	26,198
31–60 days	1,671	4,090	39,257	1,794
61–90 days	1,637	1,806	2,226	—
Over 90 days	14,006	21,432	21,991	56,686
	30,763	31,750	89,838	84,678

25 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are unlisted debt instrument denominated in RMB. The unlisted debt instrument mainly represents principal-protected investment which has minimal risk. The balances carry expected return of 2.1% to 3.6% per annum and have no fixed maturity, except for the amount of approximately HK$35,889,000 as of 31 December 2017 which has expected annual return of 1.0% to 3.7% and has matured during the four months ended 30 April 2018.

Financial assets at fair value through profit or loss are presented within "investing activities" as part of cash flow from investing activities in the combined statement of cash flows. Changes in fair values of financial assets at fair value through profit or loss are recorded in "Other gains/(losses), net" in the combined income statements.

26 Deferred tax assets/liabilities

Deferred tax assets and liabilities are calculated on temporary differences under the liability method using applicable taxation rates in the tax jurisdictions of the relevant entities.

The movements in deferred tax assets and liabilities during the year, without taking into accounts for the offsetting of the balances within the same tax jurisdiction, are as follows:

(a) Deferred tax assets

	Tax losses *HK$'000*
At 1 January 2015	26,383
Credited to profit or loss	1,197
Currency translation differences	(1,229)
At 31 December 2015	26,351
Charged to profit or loss	(3,793)
Currency translation differences	(1,519)
At 31 December 2016	21,039
Charged to profit or loss	(9,007)
Currency translation differences	1,227
At 31 December 2017	13,259
Charged to profit or loss	(9,367)
Currency translation differences	530
At 30 April 2018	4,422

(b) Deferred tax liabilities

	Temporary differences on assets recognised under HK(IFRIC) — Int 12 *HK$'000*
At 1 January 2015	63,207
Charged to profit or loss	16,938
Currency translation differences	(3,381)
At 31 December 2015	76,764
Charged to profit or loss	13,381
Currency translation differences	(5,457)
At 31 December 2016	84,688
Charged to profit or loss	12,652
Currency translation differences	6,290
At 31 December 2017	103,630
Charged to profit or loss	607
Currency translation differences	3,718
At 30 April 2018	107,955

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets				
— Recoverable more than twelve months	3,793	9,007	—	—
— Recoverable within twelve months	22,558	12,032	13,259	4,422
	26,351	21,039	13,259	4,422
Deferred tax liabilities				
— Payable or settle more than twelve months	76,764	84,688	103,630	107,955
Deferred tax assets	26,351	21,039	13,259	4,422
Deferred tax liabilities	(76,764)	(84,688)	(103,630)	(107,955)
Net deferred tax liabilities	(50,413)	(63,649)	(90,371)	(103,533)

As at 31 December 2015, 2016 and 2017 and 30 April 2018, the estimated tax impact to the Group due to unrecognised tax losses was approximately HK$15,985,000, HK16,097,000, HK$16,303,000 and HK$7,683,000.

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
With no expiry date	2,985	3,144	4,601	5,789
Expiring no later than one year	—	1,965	438	384
Expiring later than one year and no later than five years	13,000	10,988	11,264	1,510
	15,985	16,097	16,303	7,683

As at 31 December 2015, 2016 and 2017 and 30 April 2018, there were unrecognised deferred tax liabilities associated with undistributed earnings in a subsidiary and the total undistributed earnings are approximately HK$151,807,000, HK$202,063,000, HK$267,039,000 and HK$296,961,000 respectively, as the directors consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not reverse in the foreseeable future.

27 Material non-controlling interests

The subsidiary with a material non-controlling interests is TECO. TECO and its subsidiary held an other non-current asset, and remained inactive throughout the Track Record Period. The other non-current asset represents the cost incurred for the construction of a wastewater treatment plant of TECO's subsidiary that is not viable. The plant was transferred back to the PRC government and the cost incurred would be recoverable from the government.

Summarised financial information on subsidiary with material non-controlling interests

Summarised statements of financial position

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	47,624	44,575	47,907
Total liabilities	(87,925)	(86,724)	(90,738)
	(40,301)	(42,149)	(42,831)

Summarised income statements

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Loss after tax	(1,804)	(2,200)	(52)
Other comprehensive income	(560)	463	(803)

Summarised statements of cash flows

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Net (decrease)/increase in cash and cash equivalents	(11)	42	12

The information above represents the amount before inter-company eliminations.

28 Notes to combined statements of cash flows

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December			Four months ended 30 April	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before income tax	60,794	62,729	80,559	19,456	29,362
Adjustments for:					
Depreciation and amortisation	2,647	2,210	2,223	706	984
Finance income	(296)	(429)	(641)	(148)	(347)
Finance costs	50,975	42,833	42,108	13,349	14,906
Profit from wastewater treatment construction services	(8,295)	(2,968)	(17,932)	(766)	(5,595)
Fair value gain on the financial assets at fair value through profit or loss	(1,401)	(1,540)	(913)	(675)	(476)
Net gain on disposal of property, plant and equipment	(52)	(118)	(7)	—	—
Gain on deregistration of a subsidiary	—	—	—	—	(144)
Unrealised exchange differences	(904)	409	2,943	1,761	2,453
Operating profit before working capital changes	103,468	103,126	108,340	33,683	41,143
(Increase)/decrease in inventories	(211)	171	(95)	(2)	6
Decrease/(increase) in trade and other receivables	16,723	(4,214)	(24,488)	(50,733)	(44,096)
(Increase)/decrease in receivable under service concession arrangement	(96,533)	(77,120)	(85,474)	28,268	(38,859)
(Increase)/decrease in amounts due from fellow subsidiaries	(3,990)	476	(2,650)	604	7,754
Increase in restricted bank balances	—	—	(6,580)	—	—
Increase/(decrease) in trade and other payables	30,022	18,989	45,292	(12,219)	(1,344)
(Decrease)/increase in balances with other related companies	(4)	6	133	128	(146)
(Decrease)/increase in amount due to a fellow subsidiary	(829)	(388)	1,231	—	—
Cash generated from/(used in) operations	48,646	41,046	35,709	(271)	(35,542)

(b) Reconciliation of liabilities arising from financing activities

This section sets out an analysis of liabilities arising from financing activities and the movements for each of the years/periods presented.

	Amount due to TCB	Amount due to LGB (HK)	Short-term borrowings	Long-term borrowings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	533,355	—	22,509	686,801	1,242,665
Cash flows	3,150	—	(4,928)	64,349	62,571
Unrealised exchange differences	(2,023)	—	—	—	(2,023)
Currency translation differences	—	—	(865)	(33,026)	(33,891)
At 1 January 2016	534,482	—	16,716	718,124	1,269,322
Cash flows	—	856	(1,751)	29,469	28,574
Assignment of debts *(note 30(c))*	(534,482)	534,482	—	—	—
Unrealised exchange differences	—	(177)	—	—	(177)
Currency translation differences	—	—	(991)	(47,014)	(48,005)
At 1 January 2017	—	535,161	13,974	700,579	1,249,714
Cash flows	—	55,397	4,074	(384)	59,087
Unrealised exchange differences	—	5,181	—	—	5,181
Currency translation differences	—	—	1,093	49,122	50,215
At 1 January 2018	—	595,739	19,141	749,317	1,364,197
Cash flows	—	59,138	(14,122)	17,749	62,765
Assignment of debts *(note 32)*	—	(55,283)	—	—	(55,283)
Disposal of subsidiaries *(note 32)*	—	(160)	—	—	(160)
Unrealised exchange differences	—	2,850	—	—	2,850
Currency translation differences	—	—	768	26,808	27,576
At 30 April 2018	—	602,284	5,787	793,874	1,401,945
Unaudited					
At 1 January 2017	—	535,161	13,974	700,579	1,249,714
Cash flows	—	263	3,190	—	3,453
Unrealised exchange differences	—	1,805	—	—	1,805
Currency translation differences	—	—	140	6,830	6,970
At 30 April 2017	—	537,229	17,304	707,409	1,261,942

29 Commitments

(a) Capital commitments

As at 31 December 2015, 2016 and 2017, and 30 April 2018, the Group has the following capital commitments in respect of upgrade and expansion of the wastewater treatment plants under development:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for	76,047	18,229	200,530	193,992

The above commitments are in relation to service concession arrangement which will be classified as receivable under service concession arrangement or intangible asset.

(b) Lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December			As at 30 April
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	762	837	717	1,209
One to two years	—	122	30	317
	762	959	747	1,526

30 Related party transactions

Except as disclosed elsewhere in the Historical Financial Information, management is of the view that the following entities/persons are related parties of the Company and had transactions with the Group during the Track Record Period.

Name	Relationship
Taliworks Corporation Berhad	Immediate holding company prior to May 2016, and a related company since then
LGB (Malaysia) Sdn. Bhd.	Ultimate holding company
LGB Group (HK) Limited	Intermediate holding company since May 2016
Tianjin-SWM (M) Environment Ltd, Co.	Fellow subsidiary
Taliworks (Sichuan) Limited	Fellow subsidiary

These entities are controlled by the Controlling Shareholders throughout the Track Record Period.

(a) In addition to the transactions and balances disclosed elsewhere in these combined Historical Financial Information, the Group had the following material related party transactions:

	Year ended 31 December			Four months ended 30 April	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Management fees income from Tianjin-SWM (M) Environment Ltd., Co. *(note)*	1,091	1,074	1,112	359	750
Interest expenses to TCB	806	372	—	—	—
Interest expenses to LGB (HK)	—	437	809	266	268
Consultancy fee expenses to TCB	635	393	—	—	—

Management fees, interest expenses and consultancy fee are charged in accordance with the terms of respective agreements.

Note: Management fees income has ceased before [REDACTED].

(b) Amounts due from/to fellow subsidiaries/related companies

The balances below are measured at amortised cost, unsecured, interest free, and have no fixed terms of repayment. The amounts due from/(to) fellow subsidiaries, being non-trade in nature, will be settled before [REDACTED].

Amounts due from fellow subsidiaries

The balances below represent the maximum balances during the Track Record Period.

	As at 31 December			As at 30 April
	2015	2016	2017	2018
Currency	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi	12,869	11,893	15,862	18,906
Hong Kong dollars	2,100	2,100	2,100	2,135
Total	14,969	13,993	17,962	21,041

Amount due to a fellow subsidiary

	As at 31 December			As at 30 April
	2015	2016	2017	2018
Currency	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi	4,771	4,467	4,780	—

Amounts due to related companies

	As at 31 December			As at 30 April
	2015	2016	2017	2018
Currency	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi	6	13	146	—

(c) Amounts due to TCB/LGB (HK)

On 17 May 2016, LGB (HK) as purchaser and TCB, as vendor entered into a sales and purchase agreement, pursuant to which TCB agreed to sell, and LGB (HK) agreed to purchase, the entire equity interest in TIL. Pursuant to the transaction, all the outstanding balances by TIL to TCB was assigned to LGB (HK).

The balances are measured at amortised cost, unsecured and have no fixed terms of repayment. Except for the amount of US$1,600,000 (approximately HK$12,402,000), US$1,600,000 (approximately HK$12,410,000), US$1,600,000 (approximately HK$12,502,000) and US$1,600,000 (approximately HK$12,557,000) carrying interest at 6.5% per annum as of 31 December 2015, 2016 and 2017, and 30 April 2018 respectively, the remaining balance is interest-free.

Pursuant to the agreement dated 28 September 2018, the entire balances, being non-trade in nature have been capitalised.

	As at 31 December			As at 30 April
	2015	2016	2017	2018
Currency	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
United States dollars	507,612	508,752	564,358	578,370
Hong Kong dollars	13,339	13,339	13,339	13,339
Renminbi	3,769	2,747	6,650	2,899
Malaysian Ringgit	3,506	4,320	4,716	6,929
Singapore dollars	6,256	6,003	6,676	747
Total	534,482	535,161	595,739	602,284

(d) Amounts due to subsidiaries

The balances below are measured at amortised cost, unsecured, interest free, and have no fixed terms of repayment.

	As at 30 April 2018 Company *HK$'000*
Hong Kong dollars	2,178

31 Movement of accumulated losses of the Company

	Four months ended 30 April 2018 *HK$'000*
At 17 April 2018 (date of incorporation)	—
Loss for the period	(8,374)
At 30 April 2018	(8,374)

32 Disposal of subsidiaries

TIL (as vendor) and LGB (HK), intermediate holding company, (as purchaser) entered into a sale and purchase agreement pursuant to which, TIL agreed to sell and LGB (HK) agreed to purchase 70% equity interest held by TIL in Taliworks Eco Pte Ltd ("**TECO**"). As consideration, LGB (HK) agreed to pay TIL SG$1 as cash consideration (which was determined by the parties with reference to the net loss position of TECO); and assume absolutely and unconditionally all liabilities of TECO owed to TIL of approximately HK$55,283,000 by entering into a deed of novation on the same day with TIL and TECO. The transactions were properly and legally completed and settled on 11 April 2018, resulting in increase of equity by HK$30,506,000, which is accounted as a capital contribution with a capital reserve recognised in equity of the Group.

The details of the transaction are as follows:

	HK$'000
Property, plant and equipment	42
Other non-current assets	48,259
Cash and cash equivalents	76
Trade and other receivables	4,174
Trade and other payables	(24,040)
Amounts due to fellow subsidiaries	(14,804)
Amount due to TIL	(55,283)
Amount due to LGB (HK)	(160)
Net liabilities	(41,736)
Add: non-controlling interests	12,521
Less: exchange reserve	(1,291)
Capital reserve	(30,506)
Sales proceeds — cash received	—
Less: cash and cash equivalent of subsidiaries disposed of	(76)
Net cash outflow on disposal of subsidiaries	(76)

33 Subsequent events

The following events occurred subsequent to 30 April 2018 and up to the date of this report:

(a) Subsequent to 30 April 2018, the Group underwent a reorganisation in preparation for the [REDACTED]. Details of the Reorganisation are set out in note 1 above.

(b) On 28 September 2018, LGB (HK), Sparkle Century and the Company entered into a deed of loan assignment pursuant to which LGB (HK) assigned the loan due from our Company to LGB (HK) ("**LGB HK Shareholder Loan**") to Sparkle Century, in consideration of Sparkle Century undertaking to repay a sum with the same amount and under the same terms as the above LGB HK Shareholder Loan to LGB (HK). After execution of the loan assignment, the Company was indebted to Sparkle Century for the sum of approximately HK$591.0 million, while Sparkle Century was indebted to LGB (HK) for the sum of approximately HK$591.0 million. On the same day, Sparkle Century capitalised the shareholder's loan owed by the Company to it of HK$591.0 million, in consideration of the Company issuing and allotment 90,000 new shares to Sparkle Century. After the capitalisation, the Company remained to be wholly-owned by Sparkle Century.

(c) By a shareholders' resolution dated 4 October 2018 and conditional upon the share premium amount of the Company being credited as a result of the [REDACTED] of the Company's shares, the Company will issue additional [REDACTED] shares, credited as fully paid, to the existing shareholders of the Company.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2018 and up to the date of this report. No dividend or distribution has been declared, made or paid by the Company or any of the other companies now comprising the Group in respect of any period subsequent to 30 April 2018.

The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this document and the Accountant's Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the proposed [REDACTED] on the net tangible assets of the Group attributable to the owners of the Company as of 30 April 2018 as if the proposed [REDACTED] had taken place on 30 April 2018.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 April 2018 or at any future dates following the proposed [REDACTED]. It is prepared based on the combined net assets of the Group as at 30 April 2018 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix II to this document, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited combined net tangible assets of the Group attributable to owners of the Company as at 30 April 2018 *(Note 1)* *HK$'000*	**Estimated net proceeds from the proposed [REDACTED]** *(Note 2)* *HK$'000*	**Capitalisation of amount due to LGB Group (HK) Limited** *(Note 3)* *HK$'000*	**Unaudited pro forma adjusted net tangible assets attributable to owners of the Company as at 30 April 2018** *HK$'000*	**Unaudited pro forma adjusted net tangible assets per Share** *(Note 4)* *HK$*
Based on an [REDACTED] of HK$[REDACTED] per Share	205,909	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per Share	205,909	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The audited combined net tangible assets attributable to owners of the Company as at 30 April 2018 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited combined net assets of the Group attributable to owners of the Company as at 30 April 2018 of HK$269,819,000 with an adjustment for the intangible assets as at 30 April 2018 of HK$63,910,000.

(2) The estimated net proceeds from the [REDACTED] are based on the [REDACTED] of HK$[REDACTED] per Share and HK$[REDACTED] per Share, respectively, after deduction of the underwriting fees and other related expenses paid/payable by the Company (excluding [REDACTED] expenses of approximately HK$[REDACTED] which have been accounted for in the profit or loss during the Track Record Period) and takes no account of any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this document.

(3) Pursuant to the Reorganisation and the agreement dated on 28 September 2018, the outstanding balance of amount due to LGB Group (HK) Limited ("**LGB (HK)**") by the Group of HK$[REDACTED] have been assigned to Sparkle Century Group Limited ("**Sparkle Century**"), the immediate holding company of the Company by LGB (HK). On the same date, the entire outstanding amount have been capitalised by Sparkle Century in consideration for 90,000 new shares issued by the Company.

(4) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] and [REDACTED] had been completed on 30 April 2018 but takes no account of any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this document.

(5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 April 2018.

[REDACTED]

[REDACTED]

[REDACTED]

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 April 2018 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association ("**Memorandum**") and its Amended and Restated Articles of Association ("**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 4 October 2018. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares 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. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a corporation, by its duly authorized representative) or representing by proxy

not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any 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.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be 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 transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on 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 removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided 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 register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit 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) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one 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 20% per annum as the Board

shall fix from the day appointed for payment 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 money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, 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, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the 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 payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest 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 shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resigns;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may 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 the 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 also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also 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 so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the 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). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (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 the 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 the 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 whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other

special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, 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 and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the 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 former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or

owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, 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 the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have 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 proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the 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 proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its

subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(ee) 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, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. 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 a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the 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 by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which 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.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the 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 holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) 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, and continues to be present until the conclusion of the meeting.

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 authorised 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.

(vii) Proxies

Any member of the Company entitled to attend and vote at a meeting of the 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 the Company or at a class meeting. A proxy need not be a member of the 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. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company 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 account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The 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.

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 of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(aa) 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 members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members 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.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the 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.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may

pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the 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 the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction 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 the Company, whether the assets consist of property of one kind or 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 so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 17 April 2018 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also 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 authorised share capital.

(b) Share capital

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or 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 arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, 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, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the 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 authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do

not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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. In addition, 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 that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, 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, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has 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 the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

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.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 2 May 2018.

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 the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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 member, 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 (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate 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 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s).The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act 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.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member 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 members.

(s) 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the 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 V. 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.

A. 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 17 April 2018. Our Company has established a principal place of business in Hong Kong at Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 17 July 2018. Loong & Yeung of Room 1603, 16th Floor, China Building, 29 Queen's Road Central, Central, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, our Company is subject to the Cayman Islands law and our constitution, which comprises the Memorandum and the Articles. A summary of various provisions of our constitution and relevant aspects of the Companies Law is set out in Appendix III to this document.

2. Changes in share capital of our Company

(a) As at the date of incorporation, our Company has an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 17 April 2018, one nil-paid Share was issued and allotted to the initial subscriber, and was subsequently transferred to Sparkle Century on the same day, upon which, our Company is owned as to 100% by Sparkle Century, respectively.

(b) Pursuant to the Reorganisation and as consideration for the acquisition by our Company's nominee, White Empire, of the entire issued share capital of TIL, on 10 May 2018, (i) one nil-paid Share held by Sparkle Century was credited as fully paid, and (ii) 9,999 Shares were allotted and issued to Sparkle Century, all credited as fully paid.

(c) For the purpose of settling the outstanding debt owed by our Company to Sparkle Century, 90,000 Shares were allotted and issued to Sparkle Century, all credited as fully paid.

(d) On 4 October 2018, our Company resolved to increase the authorised share capital of our Company from HK$380,000 to HK$[REDACTED] by the creation of an additional of [REDACTED] Shares, each ranking pari passu with the Shares then in issue in all respects.

(e) Immediately following completion of the [REDACTED] and the [REDACTED] and taking no account any Share which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, [REDACTED] Shares will be issued fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued.

(f) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our sole Shareholder passed on 4 October 2018" in this appendix and pursuant to the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

(g) Save as disclosed in this document, there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of our sole Shareholder passed on 4 October 2018

On 4 October 2018, resolutions in writing were passed by our sole Shareholder pursuant to which, among other things:

(a) our Company approved and adopted the Memorandum and the Articles, the terms of which are summarised in Appendix III to this document;

(b) conditional on the [REDACTED] granting [REDACTED] of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document (including any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme) and on the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms of the [REDACTED] or otherwise, in each case on or before the date falling 30 days after the date of this document:

(i) the [REDACTED] were approved and the Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED] to rank pari passu with the then existing Shares in all respects;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" below in this appendix, were approved and adopted and the Directors were authorised, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

(iii) conditional further on the share premium account of our Company being credited as a result of the [REDACTED], the Directors were authorised to capitalise an amount of HK$[REDACTED] standing to the credit of the share premium account of our Company and to appropriate such amount as to capital to pay up in full at par [REDACTED] Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on 4 October 2018 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company, each ranking pari passu in all respects with the then existing issued Shares, and the Directors were authorised to give effect to such capitalisation and distributions and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme) was approved;

(c) 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 or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted and issued

in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Articles or pursuant to a specific authority granted by the Shareholders in general meeting or pursuant to the [REDACTED], Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, with such number of shares not exceeding 20% of the total number of Shares in issue immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting;

(d) a general unconditional mandate was given to the Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on 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, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and

(e) the general unconditional mandate mentioned in sub-paragraph (c) above was extended by the addition to such number of shares which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the number of shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (d) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme).

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the [REDACTED] pursuant to which our Company became the holding company of our Group. For detailed steps of the Reorganisation, please see "History, Reorganisation and Development — Reorganisation" in this document.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountant's Report of our Company, the text of which is set out in Appendix I to this document.

Save as disclosed in the section headed "History, Reorganisation and Development — Reorganisation" in this document, 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 document.

6. Repurchase of the Shares by our Company

This section contains information required by the Stock Exchange to be included in this document concerning the repurchase of the Shares by our Company.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary [REDACTED] is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares, which must be fully paid up in the case of shares, by a company with a primary [REDACTED] 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 the written resolutions passed by our Shareholders on 4 October 2018, a general unconditional mandate (the "**Repurchase Mandate**") was granted to the Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on 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, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme) and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Cayman Islands Company Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

(ii) Source of Funds

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the Listing Rules. Our Company may not repurchase its own Shares 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 from time to time.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "core connected person" (as defined in the Listing Rules), which includes a Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate (as defined in the Listing Rules) of any of them and a core connected person shall not knowingly sell Shares to our Company on the Stock Exchange.

(b) Exercise of the Repurchase Mandate

On the basis of [REDACTED] Shares in issue immediately after completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), the Directors would be authorised under the Repurchase Mandate to repurchase up to [REDACTED] Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(c) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and its Shareholders for the Directors to have a 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 our Company's net asset value and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) Funding of repurchases

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

The Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(e) General

None of the Directors or to the best of their knowledge, having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

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 Listing Rules, the Articles and the applicable laws and regulations from time to time in force in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, the Directors are not aware of any consequences which may arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the [REDACTED] of the Shares pursuant to the Repurchase Mandate.

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 Listing Rules). No core connected person (as defined in the Listing Rules) has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this document and are or may be material in relation to the business of our Company taken as a whole:

(a) the agreement for the sale and purchase of 70,000 shares in Taliworks Eco Pte. Ltd. dated 11 April 2018 entered into between TIL (as vendor) and LGB (HK) (as purchaser), pursuant to which, LGB (HK) acquired 70,000 shares of TECO from TIL;

(b) the deed of novation dated 11 April 2018 entered into among TIL, LGB (HK) and TECO, pursuant to which, LGB (HK) agreed to assume all liabilities owed by TECO to TIL;

(c) the sale and purchase agreement relating to the entire issued share capital in Taliworks International Limited dated 10 May 2018 entered into among LGB (HK) (as vendor), White Empire (as purchaser), our Company, Sparkle Century and TIL, pursuant to which White Empire acquired 100 shares of TIL from LGB (HK);

(d) the instrument of transfer and bought & sold notes dated 10 May 2018 entered into between White Empire and LGB (HK) in respect of the transfer of 100 shares of TIL from LGB (HK) to White Empire;

(e) the deed of novation dated 10 May 2018 entered into among TIL, LGB (HK), our Company, White Empire and Sparkle Century, pursuant to which, our Company agreed to assume certain debt owed by TIL to LGB (HK);

(f) the deed of assignment dated 28 September 2018 entered into between LGB (HK), Sparkle Century and our Company, pursuant to which LGB (HK) agreed to assign certain debt owed by our Company to LGB (HK) to Sparkle Century;

(g) the deed of confirmation dated 28 September 2018 entered into between Sparkle Century and our Company, pursuant to which Sparkle Century confirmed, inter alia, that it had no claim for any liability, compensation, interest, loss or damage against our Company;

(h) the Deed of Non-competition;

(i) the Deed of Indemnity; and

(j) the [REDACTED].

2. Intellectual Property Rights

Domain name

As at the Latest Practicable Date, our Group had registered the following domain name:

Domain Name	Registrars	Registration Date	Expiry Date
tilenviro.com	TIL Enviro Limited	12 April 2018	12 April 2019

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of Interests

(a) Interests of Directors and chief executive in Shares, underlying Shares and debentures of our Company

So far as the Directors are aware, immediately following the completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), the interests and short positions of the Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on the Stock Exchange, 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 any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, will be as follows:

(i) Long position in the Shares

Name of Director	Capacity/Nature of interest	Number of Shares held/ interested in	Approximate Percentage of interest
Mr. CS Lim *(Note 1)*	Interest held jointly with other persons; interest in a controlled corporation	[REDACTED]	[REDACTED]

Note:

1. Sparkle Century is wholly-owned by LGB (HK), which is owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, respectively. LGB (Malaysia) is owned as to 30.40%, 30.40%, 10.43%, 10.43%, 10.43%, 5.41% and 2.50% by Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling, respectively. As a result of the Concert Party Deed, Mr. CM Lim and Mr. CS Lim are deemed, or taken to be, interested in all the Shares held by Sparkle Century for the purposes of the SFO.

(ii) Long position in the ordinary shares of associated corporations

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares held/ interested in	Percentage of interest
Mr. CS Lim	Sparkle Century	Interest held jointly with other persons; interest in controlled corporation	2	100%
Mr. CS Lim	LGB (HK)	Interest held jointly with other persons; interest in a controlled corporation	2	100%
Mr. CS Lim	LGB (Malaysia)	Interest held jointly with other persons	6,080	60.8%

(b) Interests of substantial and other Shareholders in the Shares and underlying Shares

So far as the Directors are aware, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the [REDACTED] and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the issued voting shares of any member of our Group:

(i) Interests in Shares of our Company

Name	Capacity/Nature of interest	Number of Shares held/ interested in	Percentage of interest
Mr. CM Lim *(Notes 1 & 2)*	Interest held jointly with other persons; interest in a controlled corporation	[REDACTED]	[REDACTED]
LGB (Malaysia) *(Note 1)*	Interest in a controlled corporation	[REDACTED]	[REDACTED]
LGB (HK) *(Note 1)*	Interest in a controlled corporation	[REDACTED]	[REDACTED]
Sparkle Century	Beneficial owner	[REDACTED]	[REDACTED]

Name	Capacity/Nature of interest	Number of Shares held/ interested in	Percentage of interest
Ms. Lee Li May *(Note 3)*	Interest of spouse	[REDACTED]	[REDACTED]
Ms. Cheong Sze Theng *(Note 4)*	Interest of spouse	[REDACTED]	[REDACTED]

Notes:

1. LGB (Malaysia) beneficially owns 70% of the entire issued share capital of LGB (HK), which beneficially owns 100% of the issued share capital of Sparkle Century. As such, each of LGB (Malaysia) and LGB (HK) is deemed, or taken to be, interested in all the Shares held by Sparkle Century for the purposes of the SFO.

2. Sparkle Century is wholly-owned by LGB (HK), which is owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. CM Lim and Mr. CS Lim, respectively. LGB (Malaysia) is owned as to 30.40%, 30.40%, 10.43%, 10.43%, 10.43%, 5.41% and 2.50% by Mr. CM Lim, Mr. CS Lim, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling, respectively. As a result of the Concert Party Deed, Mr. CM Lim and Mr. CS Lim are deemed, or taken to be, interested in all the Shares held by Sparkle Century for the purposes of the SFO.

3. Ms. Lee Li May is the spouse of Mr. CM Lim and is therefore deemed to be interested in [REDACTED] Shares in which Mr. CM Lim has, or is deemed to have, for the purpose of the SFO.

4. Ms. Cheong Sze Theng is the spouse of Mr. CS Lim and is therefore deemed to be interested in [REDACTED] Shares in which Mr. CS Lim has, or is deemed to have, for the purpose of the SFO.

(ii) Interests of substantial shareholder(s) in other member(s) of our Group

Name of shareholder	Name of subsidiary	Capacity/ Nature of interest	Number of shares held/ interested in	Percentage of interest
Ishimaru Chikashi	TIBI	Beneficial owner	60,000	30%

Note: As at the Latest Practicable Date, TIBI is an indirect non-wholly-owned subsidiary of our Company and is in the process of liquidation. It had no operation and business during the Track Record Period. Ishimaru Chikashi is an Independent Third Party.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the issued voting shares of any other members of our Group.

2. Particulars of service contracts

Each of our Directors has entered into a service contract with our Company for a term of three years commencing from the [REDACTED] until terminated by not less than three months' notice in writing served by either party on the other. 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 Directors is entitled to their respective basic salaries.

None of the Directors has or is proposed to have any service contract with our Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Remuneration of Directors

(a) The aggregate remuneration paid by our Group to the Directors in the capacity of directors for the three years ended 31 December 2017 and the four months ended 30 April 2018 were approximately HK$384,000, HK$779,000, HK$1.4 million and HK$589,000, respectively.

(b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to the Directors for the year ending 31 December 2018 will be approximately HK$1.4 million.

(c) Under the arrangements currently proposed, conditional upon the [REDACTED], the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of the Directors will be as follows:

	HK$
Non-executive Director	
Mr. CS Lim	130,000
Executive Director	
Mr. Wong Kok Sun	1,150,000
Independent non-executive Directors	
Mr. Tan Yee Boon	130,000
Mr. Hew Lee Lam Sang	130,000
Mr. Tam Ka Hei Raymond	130,000

4. Agency fees or commissions received

Save as disclosed in the paragraph headed "Commission and expenses" in the section headed "Underwriting" of this document, none of the Directors or the experts named in the paragraph headed "Consents of experts" in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this document.

5. Related party transactions

Details of the related party transactions are set out under note 30 to the Accountant's Report set forth in Appendix I to this document.

6. Disclaimers

Save as disclosed in this document:

(a) taking no account any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the [REDACTED] and the [REDACTED], have an interest or short position in the Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;

(b) none of the Directors or chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;

(c) none of the Directors or the experts named in the paragraph headed "Qualifications of experts" in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(d) none of the Directors or the experts named in the paragraph headed "Qualifications of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;

(e) none of the Directors or the experts named in the paragraph headed "Qualifications of experts" in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(f) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group;

(g) none of the Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and

(h) no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

D. SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 4 October 2018. The following is a summary of the principal terms of the Share Option Scheme but does not form, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

(a) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date"	4 October 2018, the date on which the Share Option Scheme is conditionally adopted by the Shareholders by way of written resolutions
"Board"	the board of Directors or a duly authorised committee of the board of Directors
"Business Day"	any day on which the Stock Exchange is open for the business of dealings in securities
"Group"	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
"Scheme Period"	the period commencing on the Adoption Date and expiring at the close of business on the Business Day immediately preceding the tenth anniversary thereof

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our sole Shareholder passed on 4 October 2018:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and services providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme. The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five Business Days, the new issue price shall be used as the closing price for any Business Day fall within the period before listing.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1.00.

(v) Maximum number of Shares

(aa) Subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all the Shares in issue as at the [REDACTED]. Therefore, it is expected that our Company may grant options in respect of up to [REDACTED] Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such [REDACTED] Shares from time to time) to the participants under the Share Option Scheme.

(bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the Listing Rules in this regard.

(cc) Our Company may seek separate approval of the Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, such other information required under the Listing Rules.

(dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(vi) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such 1% limit must be separately approved by

the Shareholders in general meeting with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. In such event, our Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted to such grantee must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to a Director, chief executive or substantial Shareholder, or any of their respective associates

(aa) Notwithstanding the aforesaid, any grant of an option to a Director, chief executive or substantial Shareholder (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the option).

(bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of options is required to be approved by the Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to the Shareholders containing all information as required under the Listing Rules in this regard. The grantee, his associates and all core connected persons of our Company must abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a Substantial Shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by the Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of options

(aa) An offer for the grant of options may not be made after any inside information (as defined in the SFO) has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the Listing Rules and the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for our Company to publish an announcement of the results for any year, half-year or quarterly under the Listing Rules, or other interim period (whether or not required under the Listing Rules).

and ending on the date of the results announcement.

(bb) Further to the restrictions in paragraph (aa) above, no option may be granted to a Director on any day on which financial results of our Company are published and:

(i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(x) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(xi) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of

allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(xii) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(xiii) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of six months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiv) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(xv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(xvi) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time (no such certification is required in case of adjustment made on a capitalisation issue), provided that any alteration shall give a grantee the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvii) ***Rights on a general offer***

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xviii) ***Rights on winding-up***

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the grantee credited as fully paid.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and the Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the

grantees (or, as the case may be, their legal personal representative(s)) on the same day as it gives notice of the meeting to the Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement ("Suspension Date"), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees (or, as the case may be, their legal personal representative(s)) to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees (or, as the case may be, their legal personal representative(s)) to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or wilful default on the part of our Company or any of its officers.

(xx) Lapse of options

An option shall lapse automatically on the earliest of:

(aa) the expiry of the period referred to in paragraph (ix) above;

(bb) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);

(cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xv), (xvii), (xviii) or (xix) above;

(dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;

(ee) the occurrence of any serious misconduct, act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;

(ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or

(gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

(xxi) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(xxii) ***Period of the Share Option Scheme***

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

(xxiii) ***Alteration to the Share Option Scheme***

(aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.

(bb) Any alternation to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by the Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of the Listing Rules and the notes thereto and the supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(xxiv) Termination to the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon (i) the [REDACTED] of the Stock Exchange granting the [REDACTED] the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme; (ii) the passing of the necessary resolution(s) to approve and adopt the Share Option Scheme by the Shareholders in general meeting or by way of written resolution; and (iii) the commencement of trading of the Shares on the Stock Exchange.

(c) Present status of the Share Option Scheme

[REDACTED] has been made to the [REDACTED] for [REDACTED] Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

LGB (Malaysia), LGB (HK), Sparkle Century, Mr. CM Lim and Mr. CS Lim (collectively, the "**Indemnifiers**") have, under the Deed of Indemnity, given joint and several indemnities to our Company (for itself and as trustee for its subsidiaries) in connection with, among other things,

(a) any taxation falling on any member of our Group (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which the [REDACTED] becomes unconditional; or (ii) in respect of or by reference to any transaction, act, omission, matter, thing or event entered into or occurring or deemed to enter into or occur on or before the date on which the [REDACTED] becomes unconditional;

(b) any liability for Hong Kong estate duty which is or hereafter become payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the [REDACTED] becomes unconditional;

(c) any penalty, claims, actions, demands, proceedings, actions, judgments, losses, liabilities, damages, costs, administrative or other charges, fees, expenses and fines of whatever nature which may be imposed on or suffered or incurred by any member of our Group as a result of or in connection with (i) any litigation, arbitrations, claims (including counterclaims), complaints, demands and/or legal proceedings (whether criminal, administrative, contractual, tortuous or otherwise), instituted by or against any member of our Group in relation to any act, non-performance, omission, events or otherwise occurred on or before the date on which the [REDACTED] becomes unconditional; and (ii) any non-compliance with the applicable laws, rules or regulations by any member of our Group (including but not limited to the non-compliance as disclosed in the section headed "Business — Legal non-compliance" in this document) on or before the date on which the [REDACTED] becomes unconditional except that provision, reserve or allowance has been made for such liabilities in the audited combined financial statements of our Company or any other member of our Group for the Track Record Period (if any); and

(d) any liability for the implementation of the Reorganisation and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the date on which the [REDACTED] becomes unconditional;

The Indemnifiers will, however, not be liable under the deed of indemnity to the extent that, among others:

(a) specific provision, reserve or allowance has been made for such liability in the audited combined accounts of our Company for the Track Record Period; or

(b) the taxation or 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 [REDACTED] becomes unconditional; or

(c) the taxation or liability arises in the ordinary course of business of any members of our Group after 30 April 2018 up to and including the date on which the [REDACTED] 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

Save as disclosed in the sections head "Business — Legal proceedings" and "Business — Legal non-compliance" in this document, our Directors confirmed that as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group.

3. Sponsor

The Sponsor has made an application on behalf of our Company to the [REDACTED] for [REDACTED] the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

The Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

We agreed to pay the Sponsor a fee of HK$[REDACTED], which relates solely to services provided by the Sponsor in the capacity of sponsor.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are estimated to be approximately HK$50,000 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this document:

Name	Qualification
Red Sun Capital Limited	A licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
PricewaterhouseCoopers	Certified Public Accountants
Commerce & Finance Law Offices	Legal advisers as to PRC law
Appleby	Legal advisers as to Cayman Islands law
China Insights Industry Consultancy Limited	Industry research consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Valuer

7. Consents of experts

Each of Red Sun Capital Limited, PricewaterhouseCoopers, Commerce & Finance Law Offices, Appleby, China Insights Industry Consultancy Limited and Jones Lang LaSalle Corporate Appraisal and Advisory Limited has given and has not withdrawn its written consents to the issue of this document, with the inclusion of its letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which they respectively appear.

8. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, 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.

9. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by [REDACTED] and a branch register of members of our Company will be maintained by [REDACTED]. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into [REDACTED].

10. No material adverse change

Save for the expenses expected to be incurred in connection with the [REDACTED], our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company or its subsidiaries since 30 April 2018 (being the date to which the latest audited financial statements of our Group were made up), and there is no event since 30 April 2018 which would materially affect the information shown in our combined financial information included in the Accountant's Report set forth in Appendix I to this document.

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. Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

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.

(c) Consultation with professional advisers

Intending holders of the 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 the Shares. It is emphasised that none of our Company, our Directors or parties involved in the [REDACTED] accepts 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.

12. Miscellaneous

(a) Save as disclosed in this document:

(i) within the two years immediately preceding the date of this document:

(aa) no share or loan capital of our Company or 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;

(bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries;

(cc) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;

(dd) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and

(ee) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;

(ii) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this document;

(iii) none of each of Red Sun Capital Limited, PricewaterhouseCoopers, Commerce & Finance Law Offices, Appleby, China Insights Industry Consultancy Limited and Jones Lang LaSalle Corporate Appraisal and Advisory Limited:

(aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including our Shares; or

(bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;

(iv) our Company and its subsidiaries do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;

(v) no company within our Group is presently listed on any stock exchange or traded on any trading system; and

(vi) our Group has no outstanding convertible debt securities.

(b) the English text of this document shall prevail over the Chinese text.

13. Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided in section 4 of the Companies Ordinance (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 a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of each of the **[REDACTED]**, **[REDACTED]** and **[REDACTED]**;

(b) copies of the material contracts referred to in the section headed "Statutory and General Information — B. Further Information about our Business — 1. Summary of material contracts" in Appendix IV to this document; and

(c) the written consents referred to in the section headed "Statutory and General Information — E. Other Information — 7. Consents of Experts" in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Loong & Yeung at Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this document:

(a) the Memorandum and Articles of Association;

(b) the Accountant's Report and the report on the unaudited pro forma financial information prepared by PricewaterhouseCoopers, the texts of which are set out in Appendices I and II to this document;

(c) the audited combined financial statements of our Company as have been prepared for the companies comprising our Group for the three years ended 31 December 2017 and the four months ended 30 April 2018;

(d) the PRC legal opinion prepared by Commerce & Finance Law Offices, our PRC Legal Adviser, in respect of certain aspects of our Group as to the PRC law;

(e) the letter of advice prepared by Appleby, our Cayman Islands legal adviser, summarising certain aspects of Cayman Islands company law referred to in Appendix III to this document;

(f) the CIC Report issued by China Insights Industry Consultancy Limited;

(g) the report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited;

(h) the service contracts and letter of appointment referred to in the paragraph headed "Particulars of service contracts" in Appendix IV to this document;

(i) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix IV to this document;

(j) the written consents referred to in the paragraph headed "Consents of experts" in Appendix IV to this document;

(k) the Companies Law; and

(l) the Share Option Scheme.