

## **BUSINESS**

### **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.

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### 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.

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### **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 IA 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.

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### **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.

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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、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知》) (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稅優惠目錄》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.

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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.

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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

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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.

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### **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

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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.

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### 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 <i>(note)</i>	1,091	0.5	1,074	0.5	1,112	0.3	359	0.6	750	0.5
<b>Total revenue</b>	<b>250,521</b>	<b>100.0</b>	<b>207,419</b>	<b>100.0</b>	<b>366,381</b>	<b>100.0</b>	<b>63,816</b>	<b>100.0</b>	<b>138,373</b>	<b>100.0</b>

*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.

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### 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;

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- 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

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- (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

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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.

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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<sup>(Note)</sup>.

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%<sup>(Note)</sup>

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

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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.

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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.

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### **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.

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**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 during the Track Record Period	Wastewater treatment standard as at the Latest Practicable Date	Construction costs incurred during the Track Record Period	Tariff as at the Latest Practicable Date	Designed capacity as at the Latest Practicable Date	Daily basic volume as at the Latest Practicable Date	Average utilisation during the three years ended 31 December 2017	Average utilisation during the four months ended 30 April 2018	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
		(RMB/cubic metre)	(approximate)	(RMB/cubic metre)	(cubic metres/day)	(cubic metres/day)	(Note 2)	(Note 2)			(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%	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)	RMB38.6 million
							After completion of Phase I expansion: 96.8%			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)	

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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 <i>(approximate)</i>	Tariff as at the Latest Practicable Date <i>(RMB/cubic metre)</i>	Designed capacity as at the Latest Practicable Date <i>(cubic metre/day)</i>	Daily basic volume as at the Latest Practicable Date <i>(cubic metres/day)</i>	Average utilisation rate during the three years ended 31 December 2017 <i>(Note 2)</i>	Average utilisation during the four months ended 30 April 2018 <i>(Note 2)</i>	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 <i>(approximate)</i>
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 <i>(Note 1)</i>	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 <i>(準四類水標準)</i>	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 <i>(Note 3)</i>	RMB339.6 million

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*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.

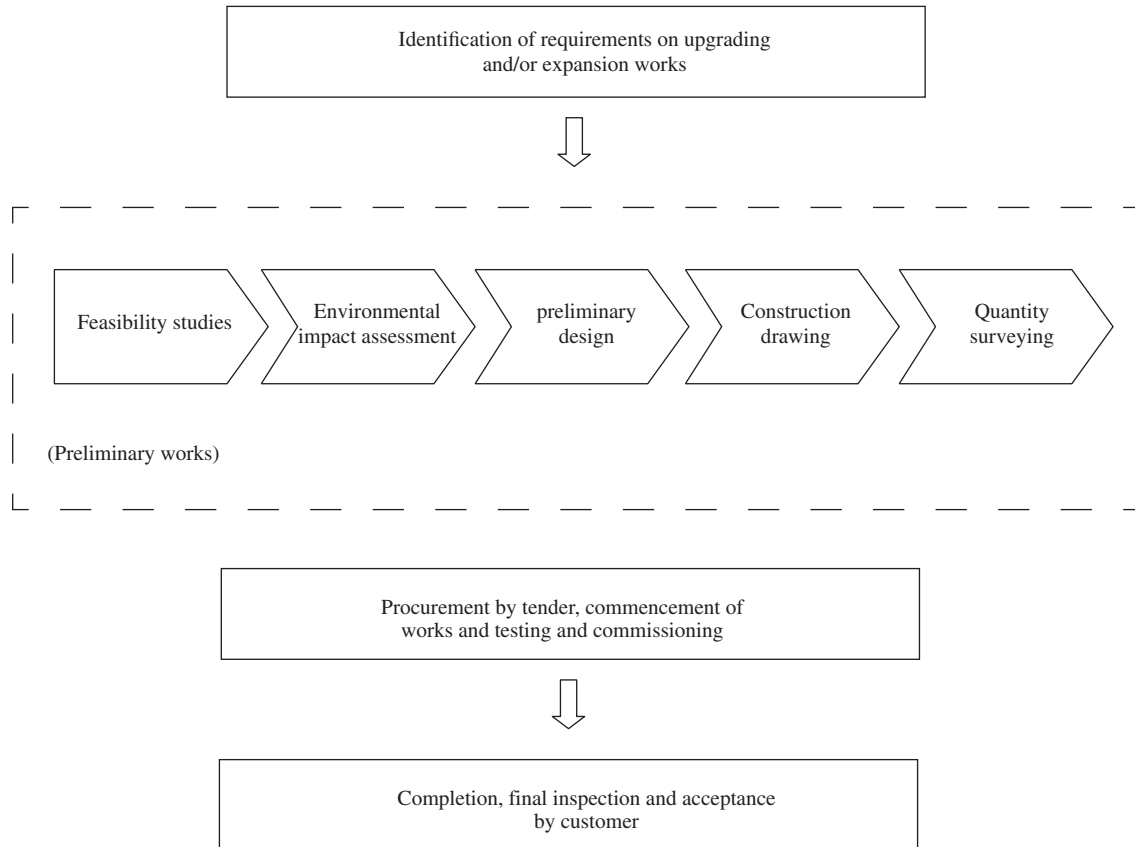
For further details of such consequences, please see "Risk Factors — Our Group's customer for our wastewater treatment services may make claims against us and/or terminate our services in whole or in part should we fail to complete the upgrading and expansion works within the prescribed timelines under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

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### 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).

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### **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.

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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.

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### 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

## BUSINESS

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.

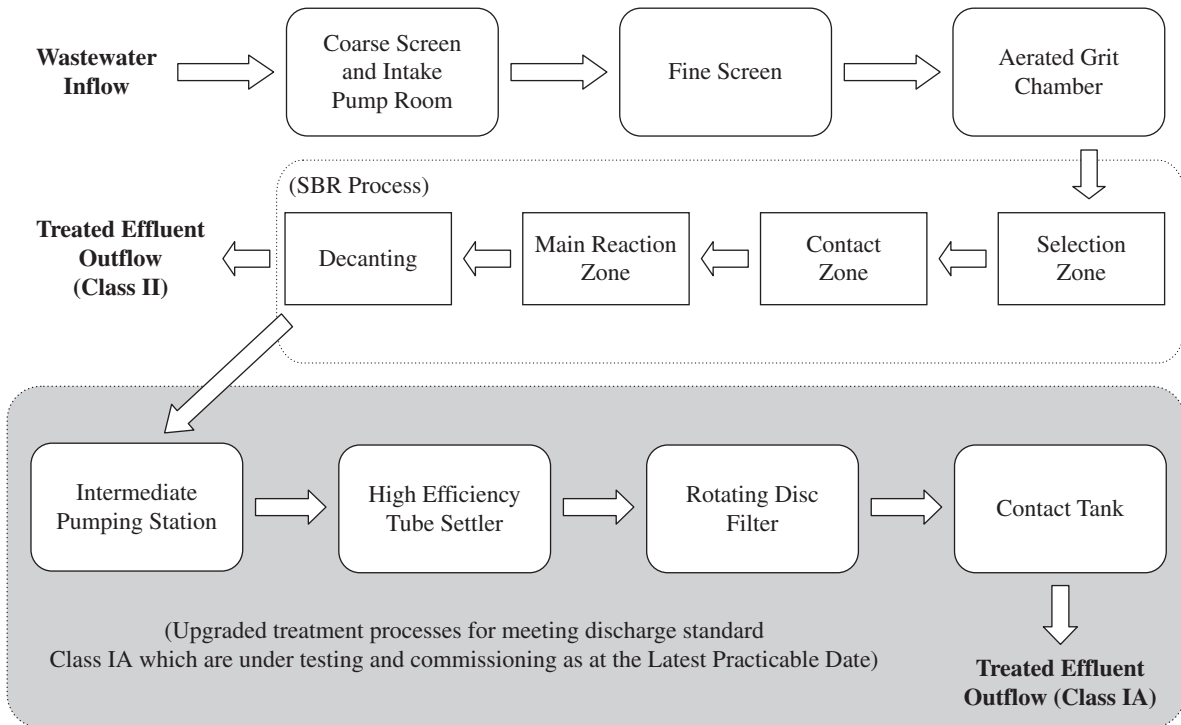
Pursuant to the respective agreements of our four project loan facilities and our working capital loan, our bank borrowings shall bear interest rates which are linked to either the PBOC published benchmark lending rates or the benchmark lending rates quoted by our lending bank from time to time. During 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.

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### 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:



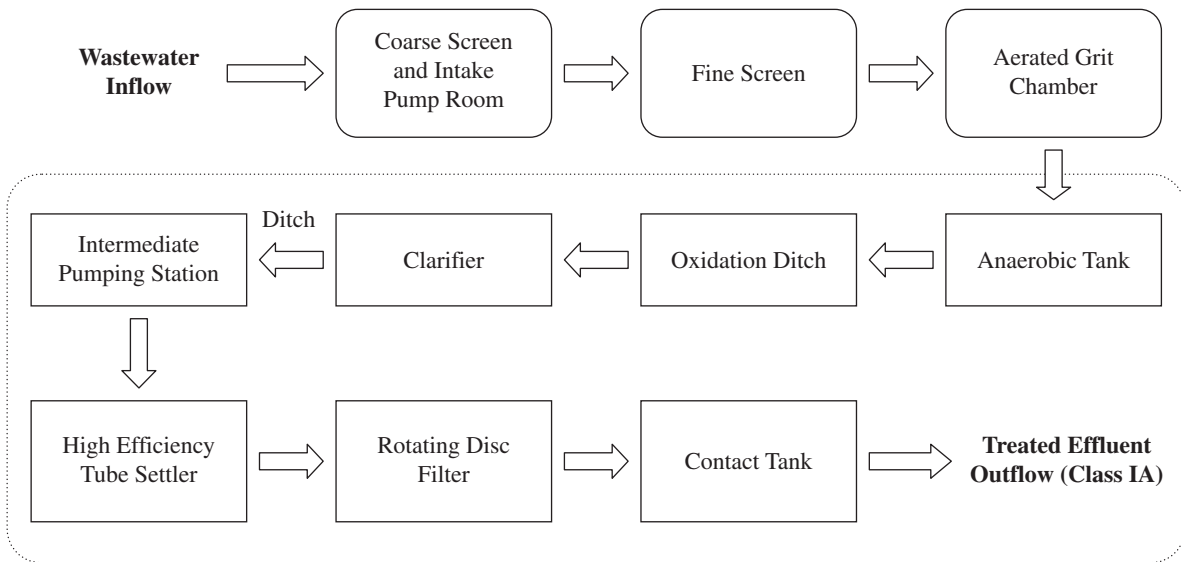
Plant 1 currently treats municipal wastewater discharged from Yinchuan.

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.

## BUSINESS

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:



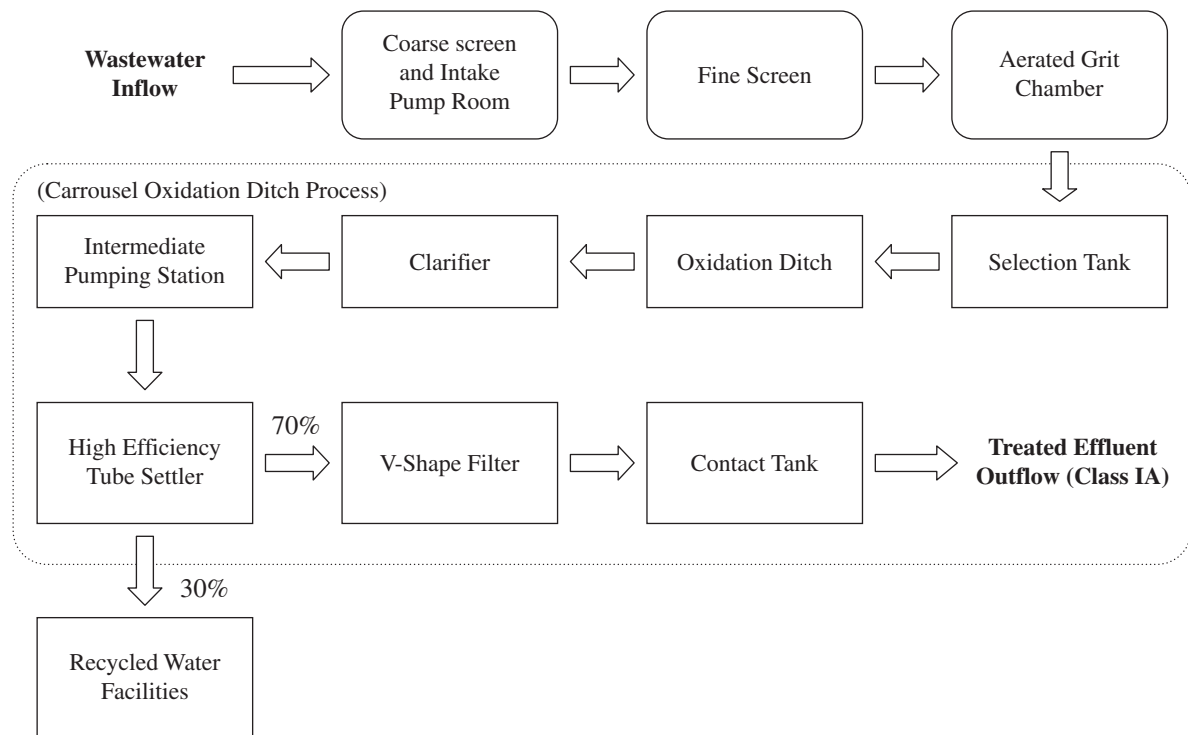
Plant 2 currently treats municipal wastewater discharged from Yinchuan.

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.

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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.

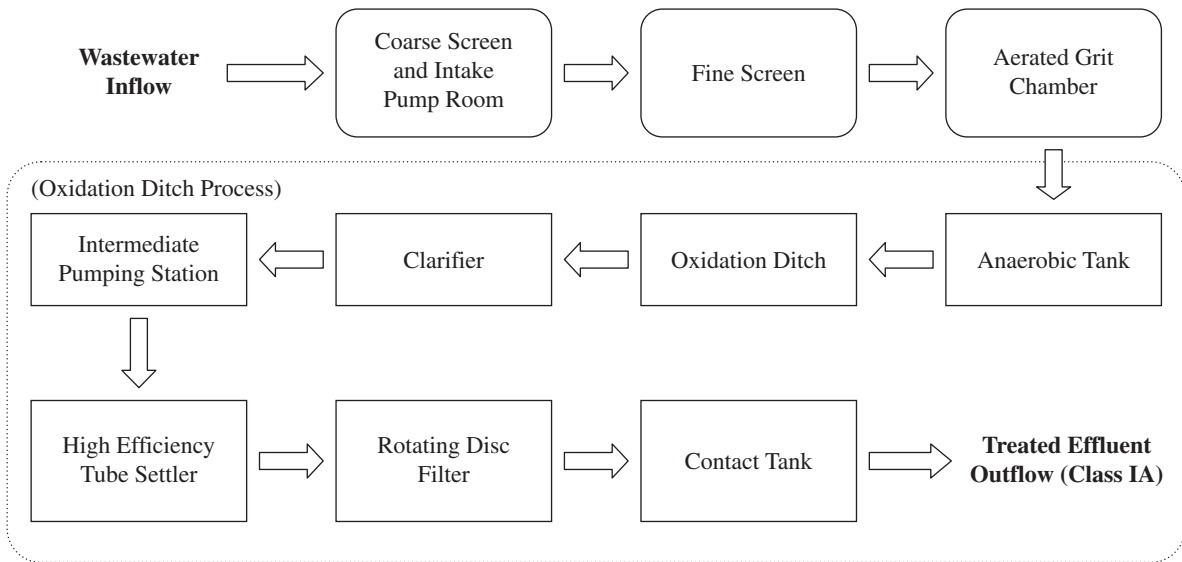
The wastewater treatment processes in Plant 3 is similar to those taking place in Plant 2 except that after the grit removal process in the aerated grit chamber, the wastewater then flows into the selection tank where a mixing process takes place to prevent the sludge from settling. There is no anaerobic 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.

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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.

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### **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.

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### **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.

## **BUSINESS**

### **SALES AND MARKETING**

Given the nature of our provision of wastewater treatment services where our 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 supply 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 of 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

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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**

<b>Customer</b>	<b>Commencement of business relationship</b>	<b>Business nature</b>	<b>Revenue (HK\$'000) (approximate)</b>	<b>Percentage of our total revenue</b>
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	<u>199.7</u>	<u>0.1%</u>
<b>Total revenue derived from our top five customers</b>			<u><u>248,939.1</u></u>	<u><u>99.3%</u></u>

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**For the year ended 31 December 2016**

<b>Customer</b>	<b>Commencement of business relationship</b>	<b>Business nature</b>	<b>Revenue (HK\$'000) (approximate)</b>	<b>Percentage of our total revenue</b>
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	<u>148.7</u>	<u>0.1%</u>
<b>Total revenue derived from our top five customers</b>			<u><u>205,810.2</u></u>	<u><u>99.3%</u></u>

**For the year ended 31 December 2017**

<b>Customer</b>	<b>Commencement of business relationship</b>	<b>Business nature</b>	<b>Revenue (HK\$'000) (approximate)</b>	<b>Percentage of our total revenue</b>
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	<u>106.4</u>	<u>0.0% (Note)</u>
<b>Total revenue derived from our top five customers</b>			<u><u>364,997.6</u></u>	<u><u>99.6%</u></u>

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

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### 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%
Customer H	2017	Supply recycled water	30.0	0.0%
Customer C	2012	Supply recycled water	25.8	0.0%
			137,586.9	99.4%
<b>Total revenue derived from our top five customers</b>			<b>137,586.9</b>	<b>99.4%</b>

*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.

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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%
<b>Total purchases from top five suppliers</b>			<u>84,241.4</u>	<u>79.2%</u>

**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%
<b>Total purchases from top five suppliers</b>			<u>50,079.4</u>	<u>78.3%</u>

*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.

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**For the year ended 31 December 2017**

<b>Supplier</b>	<b>Commencement of business relationship</b>	<b>Types of materials/services procured</b>	<b>Procurement amount (HK\$'000) (approximate)</b>	<b>Percentage of our total purchase</b>
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	<u>4,995.6</u>	<u>2.4%</u>
<b>Total purchases from top five suppliers</b>			<u><u>111,399.5</u></u>	<u><u>54.5%</u></u>

**For the four months ended 30 April 2018**

<b>Supplier</b>	<b>Commencement of business relationship</b>	<b>Business nature</b>	<b>Procurement amount (HK\$'000) (approximate)</b>	<b>Percentage of our total purchase</b>
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	<u>2,386.8</u>	<u>3.5%</u>
<b>Total purchases from top five suppliers</b>			<u><u>42,757.6</u></u>	<u><u>63.0%</u></u>

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

## **BUSINESS**

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.

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**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:

<b>License/permit</b>	<b>License/permit holder</b>	<b>Date of latest grant</b>	<b>Expiry date (Note)</b>
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.

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### 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* (寧夏地方稅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* (銀川市金鳳區國家稅務局)
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* (銀川市地方稅務局)
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* (寧夏地方稅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* (銀川市地方稅務局)
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)

## BUSINESS

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.

## BUSINESS

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:

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

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.

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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.

## **BUSINESS**

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.

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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 uninterrupted 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.

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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.

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### 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.

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### 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.

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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 <i>(in square metres)</i>	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

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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.