

## FINANCIAL INFORMATION

*You should read this section in conjunction with our Group’s audited combined financial statements, including the notes thereto, as set forth in the Accountant’s Report in Appendix I to this document. The Accountant’s Report has been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”). You should read the entire Accountant’s Report and not merely rely on the information contained in this section.*

*The following discussion and analysis and analysis contains certain forward-looking statements that reflect the current views in respect of future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether our actual results reported in future periods differ materially from those discussed below depends on various factors which we do not have any control over. Factors that could cause or contribute to such differences include those discussed in the sections headed “Forward-Looking Statements”, “Risk Factors” and “Business” as well as those discussed elsewhere in this document.*

### OVERVIEW

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

Pursuant to the Concession Agreement, we have the exclusive right to manage and operate four wastewater treatment facilities in Yinchuan, namely, Yinchuan Wastewater Treatment Plant 1, Yinchuan Wastewater Treatment Plant 2, Yinchuan Wastewater Treatment Plant 3 and Yinchuan Wastewater Treatment Plant 4 to provide wastewater treatment services to the communities and industries in Yinchuan, we also undertake the upgrading and expansion of our wastewater treatment facilities to achieve higher wastewater discharge standards and to increase our designed treatment capacities.

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

During the Track Record Period, our revenue was primarily derived from three major revenue components, namely: (i) wastewater treatment construction services; (ii) wastewater treatment operation services; and (iii) finance income from service concession arrangement. The revenue contribution of our three major revenue components were as follows, (i) approximately 36.4%, 15.8%, 53.8% and 44.5% of our revenue was derived from wastewater treatment construction services; (ii) approximately 29.2%,

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42.2%, 20.9% and 30.0% of our revenue was derived from wastewater treatment operation services; and (iii) approximately 31.4%, 39.0%, 23.5% and 23.5% of our revenue was derived from finance income from service concession arrangement, during the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. We recorded revenue of approximately HK\$250.5 million, HK\$207.4 million, HK\$366.4 million and HK\$138.4 million for the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. During the same period, we also recorded profit for the year of approximately HK\$45.1 million, HK\$45.6 million, HK\$58.9 million and HK\$19.4 million, respectively.

### Recent development

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

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

During the eight months ended 31 August 2018, based on our unaudited management accounts, we incurred construction costs of approximately HK\$164.2 million for the upgrading and expansion works on our Wastewater Treatment Plants.

Subject to various factors, including among others, the progress of our scheduled upgrading and expansion works, the actual level of cost of sales, including operating costs and construction costs, and general and administrative expenses, to be incurred by our Group, based on the information available as at the Latest Practicable Date and barring unforeseen circumstances, partly attributable to our ongoing and planned upgrading and expansion works, our Directors expected the gross and net profit margins of our Group (excluding [REDACTED] expenses) for the year ending 31 December 2018 to be within the gross and net profit margins range recorded by our Group during the three years ended 31 December 2015, 2016 and 2017. Our Group’s gross profit margin and net profit margin ranged from approximately 36.2% to 54.0% and approximately 16.1% and 22.0% during the three years ended 31 December 2017.

The total indebtedness of our Group as at 31 August 2018, being the latest practicable date for determining the amount of indebtedness in this document, amounted to approximately HK\$1,348.8 million. Further details of our Group’s indebtedness statement as at 31 August 2018 are set out under the paragraph headed “Financial Information — Indebtedness” in this document.

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### BASIS OF PRESENTATION

Prior to the [REDACTED], our Group had undergone the Reorganisation after which our Company has become the holding company of the companies now comprising our Group since 10 May 2018. Please refer to the section headed “History, Reorganisation and Development” in this document for details.

Immediately prior to and after the Reorganisation, our business is held by TIL and its subsidiaries, which were owned and controlled by the Controlling Shareholders. Pursuant to the Reorganisation, TIL and our business are transferred to and held by the Company. The Reorganisation is merely a reorganisation of the shareholding structure of our business with no changes in management and the ultimate owners of our business remain the same. Accordingly, the Group, resulting from the Reorganisation, is regarded as a continuation of our business under TIL and, for the purpose of the Accountant’s Report set out in Appendix I of this document, the combined financial information has been prepared and presented as a continuation of the consolidated financial statements of TIL and its subsidiaries.

Our combined financial information throughout the Track Record Period has been prepared in accordance with HKFRS. Inter-company transactions, balances and unrealised gains on transactions between the combining entities or businesses have been eliminated upon consolidation.

The historical financial information of our Group for the Track Record Period, as set out in Appendix I to this Document, has been prepared in accordance with the applicable HKFRSs (the “**Historical Financial Information**”). Having assessed the effects of (i) adopting HKFRS 9 on the Historical Financial Information as compared to the adoption of HKAS 39; and (ii) adopting HKFRS 15 as compared to the adoption of HKAS 18 on the Historical Financial Information, save for the change in classification of certain assets and liabilities in the statement of financial position of the Group attributable to the adoption of HKFRS 15, our Directors considered that the adoption of HKFRS 9 and HKFRS 15 would not have a significant impact on our financial position and performance.

Having assessed the adoption of HKFRS 16, under the modified retrospective approach upon the initial adoption, our Directors noted the following:

- comparative information for prior periods is not restated;
- the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which our Group first applies the requirement of HKFRS 16, i.e. 1 January 2019; and
- our Group will recognise the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained profit (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 January 2019.

As at 30 April 2018, our Group has non-cancellable operating lease commitments of approximately HK\$1.5 million which accounted for less than 1% of our Group’s total asset and liabilities as at 30 April 2018. Our Group expects that the adoption of HKFRS 16 as compared with the current accounting policy would not result in significant impact on our Group’s assets and liabilities. However, upon adoption of HKFRS 16, our Group will recognise a liability reflecting these future lease payments and right-of-use assets, unless the underlying asset is of low value or they are short-term leases, in the

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balance sheets. However, our Group does not expect a significant impact on operating performance, except for the recognition of depreciation expenses of the related right-of-use assets and interest expenses on the lease liability in the statement of comprehensive income, instead of operating lease expenses.

### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENT

Critical accounting policies and estimates refer to those accounting policies and estimates that entail significant uncertainty and judgement and could yield materially different results under different conditions and/or assumptions. The preparation of the financial information in conformity with HKFRS requires our management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The methods and approach that we use in determining these items is based on our experience, the nature of our business operations, the relevant rules and regulations and the relevant circumstances. These underlying assumptions and estimates are reviewed regularly as they may have a significant impact on our operational results as reported in our combined financial statements included elsewhere in this document.

Set out below are selected critical accounting policies adopted and estimates made in the preparation of our combined financial statements which we believe are both important to the presentation of our financial results and involve significant estimates and judgements. Further details are set forth in Note 4 “Critical accounting estimates and judgements” of the Accountant’s Report contained in Appendix I to this document.

#### Service concession arrangement

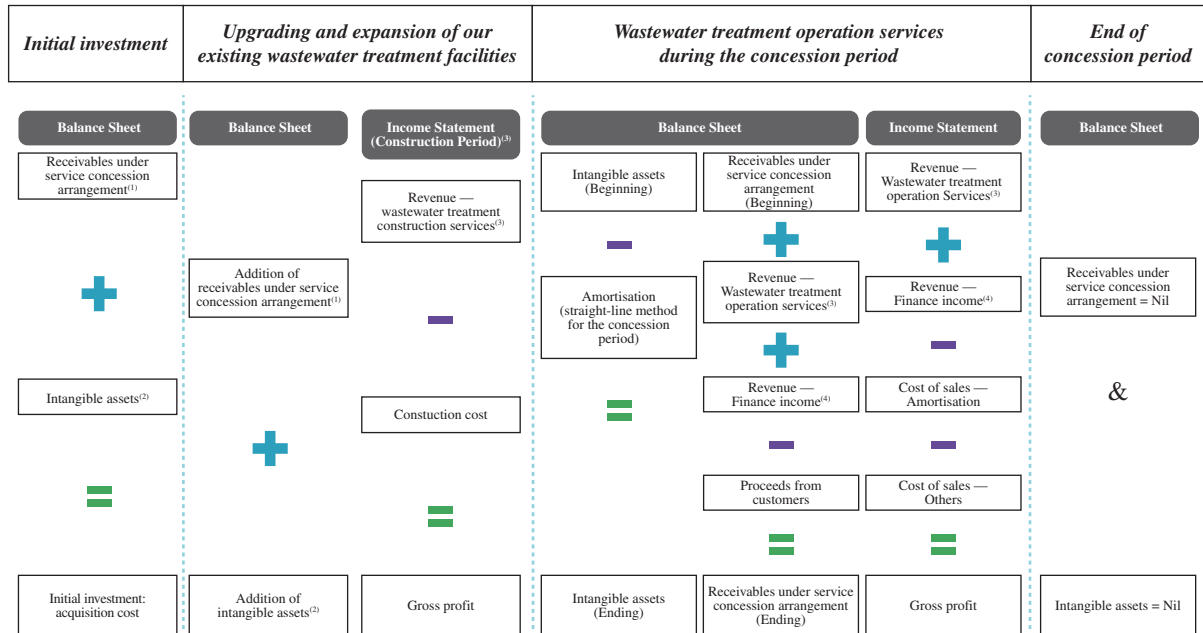
We entered into the Concession Agreement with Yinchuan Construction Bureau to operate and manage our Wastewater Treatment Plants for a term of 30 years commencing from September 2011 and expiring in September 2041. Based on the terms of the Concession Agreement, pursuant to HKFRS, IFRIC 12 Service Concession Arrangements applies to our wastewater treatment business. In addition, our Wastewater Treatment Plants must be transferred to the aforesaid governmental authority at the end of the concession period in September 2041 for nil consideration.

As set out in the Accountant’s Report of Appendix I to this document, key assumptions in calculating the value of the concession rights under the Concession Agreement include, but not limited to, (i) the construction profit margin (10.0%); (ii) the operating profit margin (39.0%); (iii) interest rate (6.75%); and (iv) inflation of operating costs (3.0%).

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Set out below is a simplified diagram illustrating the effects of the Concession Agreement to our financial statements:

*Diagram: Concession Agreement — Effects to the financial statements*



*Notes:*

- (1) Receivable under service concession arrangement is recognised to the extent that we have an unconditional right to receive tariff payments based on the basic volumes stipulated under the Concession Agreement.
- (2) An intangible asset is recognised to the extent that the right to charge users or local governments is dependent upon the usage or amount of services rendered.
- (3) Revenue for (i) wastewater treatment operation services; and (ii) wastewater treatment construction services are recognised on the basis of actual costs with reasonable profit margins as advised by JLL, respectively.
- (4) Financial income generated from receivables under service concession arrangement (financial assets) is calculated based on a reasonable interest rate as advised by JLL.

### **Initial investment**

The initial consideration for the acquisition of the concession right and underlying assets of our Wastewater Treatment Plants under the Concession Agreement is accounted for as a financial asset (see Note 16 to the Accountant’s Report), an intangible asset (see Note 17 to the Accountant’s Report) or a combination of both, as appropriate.

A financial asset (receivables under service concession arrangement) is recognised to the extent that we have an unconditional right to receive tariff payments based on the basic volumes stipulated under the Concession Agreement. An intangible asset (operating concession) is recognised to the extent that the right to charge users or local governments is depended upon the usage or amount of services rendered, which is not an unconditional right to receive cash.

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Significant judgement is exercised in determining the fair value of the consideration for construction service, the segregation of the consideration for a service concession arrangement between the financial asset component and the intangible assets component at initial recognition. Major estimates and assumptions used in the valuation process include the interest rate, the operating margin and the construction margin etc. Any change in the expected cash flows will result in change in the carrying value of the financial asset component and the intangible assets component. For further details, please refer to Note 4.1 “Service concession arrangement” set out in the Accountant’s Report in Appendix I to this document.

### *Operational phase post acquisition*

As set out above, our services under the Concession Agreement is considered to be service concession arrangement within the scope of IFRIC 12 Service Concession Arrangements. In this connection, we recognise revenue (i) for the upgrading and expansion of our existing wastewater treatment facilities; (ii) for our wastewater treatment operation, whereby revenue is recognised for the provision of wastewater treatment operation services; and (iii) as finance income from service concession arrangement.

#### *(i) Upgrading and expansion of our existing wastewater treatment facilities*

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

The wastewater treatment construction services revenue for our upgrading and expansion services under the Concession Agreement is calculated as the total construction costs plus a reasonable profit margin advised by JLL, based on prevailing market rate applicable to similar construction services.

Revenue from wastewater treatment construction services is recognised over time by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

During the Track Record Period, revenue recognised from construction service was in connection with the upgrading and expansion works carried out for our Wastewater Treatment Plants, respectively.

As set out in the diagram headed “Concession Agreement — Effects to the financial statements” under section headed “Financial Information — Service concession arrangement”, a financial asset (i.e. receivables under service concession arrangement), an intangible asset or a combination of both, as appropriate, is recognised for the upgrading and expansion of our Wastewater Treatment Plants under the Concession Agreement.

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Significant judgement is exercised in determining the fair value of the financial receivables relating to construction services at initial recognition. Major estimates and assumptions used in the valuation process include the interest rate, the operating margin and the construction margin. Any change in the expected cash flows will result in change in the carrying value of the financial receivable. For further details, please refer to Note 4.1 “Service concession arrangement” set out in the Accountant’s Report in Appendix I to this document.

### *(ii) Wastewater treatment operation during the concession period*

Revenue from wastewater treatment operation services is recognised over the period when the services are rendered and our Group’s performance provides all of the benefits received and/or consumed by the customer. Costs for operating services are expensed in the period in which they are incurred.

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

As we recognised the portion of consideration given to the relevant authorities representing the extent that we have an unconditional contractual right to receive cash from the relevant authorities as receivables under service concession arrangements (when we are entitled to the guaranteed revenue stream according to the Concession Agreement) which are carried at amortised costs, we also recognised finance income on receivables under service concession arrangement using the effective interest method throughout the concession period based on our outstanding receivables under service concession arrangement balance. Further details on the finance income on receivables under service concession arrangement is set out below.

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

### *(iii) Finance income from service concession arrangement*

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

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### *Sensitivity analysis*

The assumptions used in the sensitivity analysis are highly judgemental and interrelated, the change of one key assumption will trigger corresponding changes in other assumptions. The tables below set out sensitivity analysis illustrating the change in profit after tax during the relevant periods by applying a hypothetical fluctuation rate to (i) the construction margin of the wastewater treatment construction services of 0.5%; (ii) the operating margin of the wastewater treatment operation services at 1.0%; and (iii) the effective interest rate of the finance income from service concession arrangement at 0.5%.

Sensitivity analysis on construction margin of wastewater treatment construction services:

<b>Hypothetical fluctuation in construction margin of the wastewater treatment construction services</b>	<b>Corresponding change in profit after tax</b>			
				<b>Four months ended</b>
	<b>Year ended 31 December</b>			<b>30 April</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
+0.5%	163	(34)	528	211
-0.5%	(162)	34	(527)	(211)

Sensitivity analysis on operating margin of wastewater treatment operation services:

<b>Hypothetical fluctuation in operating margin of the wastewater treatment operation services</b>	<b>Corresponding change in profit after tax</b>			
				<b>Four months ended</b>
	<b>Year ended 31 December</b>			<b>30 April</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
+1.0%	(331)	(274)	(349)	(71)
-1.0%	331	274	349	71

Sensitivity analysis on effective interest rate of the finance income from service concession arrangement:

<b>Hypothetical fluctuation in effective interest rate of the finance income from service concession arrangement</b>	<b>Corresponding change in profit after tax</b>			
				<b>Four months ended</b>
	<b>Year ended 31 December</b>			<b>30 April</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
+0.5%	2,873	2,480	3,405	758
-0.5%	(2,661)	(2,316)	(3,146)	(719)

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### *Impairment of receivables under service concession arrangement, trade and other receivables and non-financial assets*

#### *Receivables under service concession arrangement*

We record impairments of receivables based on our management’s assessment of the recoverability of receivables under service concession arrangement. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Making an impairment assessment requires the use of judgement and estimate. Where the expectation is different from the original estimate, such difference will impact both the carrying value of the receivables and the impairment charge in the period in which such estimate has been changed.

#### *Trade and other receivables*

Provision for expected credit loss is made when our Group will not collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision reflects lifetime expected credit losses, i.e. possible default events over the expected life of the receivables, weighted by the probability of that default occurring. Judgement has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of debtors and the likelihood of recovery assessed on a combination of collective and individual bases as relevant. While provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to profit or loss. Key judgements on provisions made across businesses are disclosed in Note 19 “Trade and other receivables” of the Accountant’s Report contained in Appendix I to this document.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

#### *Non-financial assets*

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### *Taxation*

According to the Concession Agreement entered into by our Group and Yinchuan Construction Bureau (the “**Grantor**”) in September 2011, the Grantor will compensate our Group if there is any change in the tax rules of Business Tax (“**BT**”) or Value-Added Tax (“**VAT**”) during the concession period leading to increase in our Group’s operating costs.

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As disclosed in Note 4.1 “Service concession arrangement” of the Accountant’s Report set out in Appendix I to this document, on 9 December 2008 the Ministry of Finance and SAT jointly issued Notice on Value Added Tax Policy Regarding Comprehensive Utilisation of Resources and Other Products Caishui [2008] No. 156 (the “**Caishui [2008] No. 156**”). According to Caishui [2008] No. 156 since 1 January 2009, taxpayers engaging in the wastewater processing business and sales of reclaimed water are eligible for 100% VAT exemption if they fulfil the requirements as set out in Caishui [2008] No. 156 and obtain Certificate of Comprehensive Utilisation of Resources. On 12 June 2015, the Ministry of Finance and SAT issued the preferential value-added tax catalogue of products and services which comprehensively utilised resources Caishui [2015] No. 78 (the “**Caishui [2015] No. 78**”). According to the Caishui [2015] No. 78, the wastewater processing business are required to pay VAT since 1 July 2015, in which 70% of VAT paid by the wastewater processing business will be refunded.

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

During the six months ended 30 June 2015, our Group was exempted from VAT according to Caishui [2008] No. 156. Since 1 July 2015, 70% of the VAT paid by our Group was refunded according to the Caishui [2015] No. 78 and our Group was eligible for the compensation for the remaining 30% of the VAT payment from the Grantor under the Concession Agreement. Although the Concession Agreement does not specify the extent of compensation of BT and VAT, our management considered that there is reasonable assurance to assume these refunds will be continuously received throughout the concession period. When the expectation is different from the original estimate, such differences will impact the segregation of the consideration between the financial asset component and the intangible asset component.

The VAT payment obligation and refund is assumed to take place in the same financial year. The amount and timing of the VAT payment and refund would have an impact on the cash balances of our Group as well as the construction margin and operation margin under the IFRIC 12 Service Concession Arrangements.

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### **SIGNIFICANT FACTORS AFFECTING OPERATING RESULTS AND FINANCIAL CONDITION OF OUR GROUP**

The results of operations and financial condition of our Group have been and will continue to be affected by a number of factors, many of which are beyond our control, including those discussed below and under the section headed “Risk Factors” in this document.

#### **Renewal of the concessionary right in the Concession Agreement upon its expiry and our ability to secure new projects**

During the Track Record Period, our Group’s revenue was mainly derived from our wastewater treatment construction services, our wastewater treatment operation services, and finance income from service concession arrangement. We operate our Wastewater Treatment Plants under the Concession Agreement based on TOT model, whereby we are granted a concessionary right to operate the facilities for a specified period of time, i.e. 30 years, expiring in September 2041. There is no provision for automatic renewal of the concessionary right in the Concession Agreement. Upon the expiry of the concession period, we are required to surrender the control and rights of use of the facilities and the land occupied by the facilities to the local government for nil consideration.

Our Group’s sustainability after the expiry of the existing term of the Concession Agreement in September 2041 and future growth depends on our ability to secure and execute new projects as well as our ability to obtain concession right to continue operating our existing facilities after the expiry of the current term of the Concession Agreement.

#### **Changes in the laws and regulations for wastewater treatment services in the PRC**

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

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

Furthermore, changes in regulations or standards for wastewater treatment or other environmental regulations may require us to adopt new technologies or implement improvement to our existing facilities. We may need to upgrade our existing wastewater treatment flow or facilities to meet the standards imposed by the relevant regulatory authorities, which could require additional time or financial, human and other resources, thus these factors shall continue to have an impact on our operations going forward.

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

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

As our bank loans are principally denominated in RMB, the interest rates on our loans are primarily affected by the benchmark interest rates set by PBOC. In the PRC, PBOC regulates the lending rates and reserve requirement ratios for commercial banks. The reserve requirement refers to the amount of funds that banks must hold in reserve with PBOC against deposits made by their customers. Increases in the bank reserve requirement ratios may negatively impact the amount of funds available to commercial banks in the PRC to lend to businesses, including our Company. We cannot assure you that the PBOC will not further raise lending rates or reserve requirement ratios in future and any such increase may lead to higher lending rates and/or limit the amount of funds the banks have for lending, which may increase our financing costs and thereby, materially and adversely affect our business, financial condition, results of operations and prospects.

### **Ability to adjust our tariffs and/or basic volumes on a timely basis to fully reflect any increase in our actual costs incurred in day-to-day operation**

Our Group operates and maintains our existing Wastewater Treatment Plants and receive our wastewater treatment service fees from the local government based on pre-agreed tariffs. The wastewater treatment fees under the Concession Agreement are calculated based on a tariff for the basic volume of wastewater applicable to our individual Wastewater Treatment Plants and a discounted unit rate at 60% of the tariff for the additional volume in excess of the aforementioned basic volume.

The Concession Agreement contain provisions specifying the circumstances when the parties can revise the tariff rates, which include changes in operation and management costs due to inflation in the PRC by reference to the relevant benchmark prices which affect our cost for materials, labour, equipment and maintenance services for our facilities which, in turn, result in increase in our operating costs.

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

In view of the above, timely adjustment to our tariffs and/or basic volumes shall continue to have an impact on the results of our operations going forward.

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### **Significant downtime in our wastewater treatment facilities may expose our Group to liabilities under the Concession Agreement as well as claims and disputes**

Our Wastewater Treatment Plants may require downtime for repairs and maintenance during the course of our operations. However, if the time and cost required for such repairs and maintenance exceeds our expectations, our operations may be affected for a period longer than anticipated and our revenue from our Wastewater Treatment Plants may be less than we originally projected. In addition, if any extensive repairs to our facilities or equipment are required, due to any significant or catastrophic event or otherwise, our facilities could require significant downtime during which they would not be able to treat wastewater as required under the Concession Agreement. According to the Concession Agreement, each of our four existing plants shall not suspend its operations for more than 18 days cumulatively during any operation year, and during periods of suspension which have been planned ahead and approved by Yinchuan Construction Bureau, we are still required to treat not less than 50% of the daily basic volume of wastewater per day if the volume of incoming wastewater exceeds 50% of the daily basic volume per day, or where the volume of inflow of wastewater is below 50% of the daily basic volume, we are required to treat all of the inflow of wastewater for the relevant day, failing which we shall be liable to pay penalty to our customer. Moreover, if any of our plants are suspended from service for five consecutive days or above or accumulatively for 10 days or more during any operation year which have not been approved by our customer in advance, such suspension will constitute material breach of the Concession Agreement giving rights to our customer to early terminate the Concession Agreement and we may be subject to claims for damages. Furthermore, any unexpected significant downtime of our facilities may also have significant consequences to the communities and industries around our facilities, which in turn, could lead to our customer deciding to terminate the Concession Agreement with us or we may be subject to claims for damages. Thus, any such extraordinary or extensive downtime may lead to the termination of the Concession Agreement and claims which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

### **Our Group’s preferential tax treatment may be unfavourably changed or discontinued**

According to the applicable PRC laws and regulations, since 1 July 2015, 70% of the VAT paid by our Group was refunded and our Group was eligible for compensation for the remaining 30% of the VAT payment from Yinchuan Construction Bureau under the Concession Agreement, as further detailed under paragraph headed “Financial Information — Critical accounting policies, estimates and judgement — Taxation”.

In the event of termination or expiration of our preferential tax treatment or the imposition of additional taxes on us or our subsidiaries in the PRC, it may lead to an increase in our expenses and have a material adverse effect on our business, financial condition, results of operations and prospects.

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### SUMMARY OF RESULTS OF OPERATIONS

The table below presents the summary of combined statements of comprehensive income of our Group during the Track Record Period extracted from the Accountant’s Report as set out in Appendix I to this document.

#### Combined statements of comprehensive income

	Year ended 31 December			Four months ended 30 April	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2017 HK\$'000	2018 HK\$'000
				(unaudited)	
<b>Revenue</b>	250,521	207,419	366,381	63,816	138,373
Cost of sales	(137,160)	(95,450)	(233,597)	(26,859)	(80,872)
<b>Gross profit</b>	113,361	111,969	132,784	36,957	57,501
Other income	3,360	2,514	2,847	510	761
Other gains/(losses)	3,358	982	(3,083)	(1,089)	(1,876)
General and administrative expenses	(8,450)	(9,918)	(10,017)	(3,617)	(3,766)
— [REDACTED] expenses	—	—	—	—	(8,374)
Finance costs	(50,835)	(42,818)	(41,972)	(13,305)	(14,884)
<b>Profit before taxation</b>	60,794	62,729	80,559	19,456	29,362
Income tax expense	(15,741)	(17,174)	(21,659)	(5,672)	(9,974)
<b>Profit for the year</b>	45,053	45,555	58,900	13,784	19,388
Other comprehensive income/(losses)	(26,829)	(37,912)	42,253	4,063	25,303
<b>Total comprehensive income for the year</b>	18,224	7,643	101,153	17,847	44,691

### MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

#### Revenue

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

During the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, our revenue was primarily derived from three major revenue components, namely: (i) wastewater treatment construction services, which amounted to approximately HK\$91.2 million, HK\$32.6 million, HK\$197.2 million and HK\$61.5 million, representing approximately 36.4%, 15.8%, 53.8% and 44.5% of our total revenue, respectively; (ii) wastewater treatment operation services, which amounted to approximately HK\$73.2 million, HK\$87.6 million, HK\$76.6 million and HK\$41.5 million, representing

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approximately 29.2%, 42.2%, 20.9% and 30.0% of our total revenue, respectively; and (iii) finance income from service concession arrangement, which amounted to approximately HK\$78.7 million, HK\$80.9 million, HK\$86.0 million and HK\$32.5 million, representing approximately 31.4%, 39.0%, 23.5% and 23.5% of our total revenue, respectively.

The remaining revenue of approximately HK\$7.4 million, HK\$6.3 million, HK\$6.5 million and HK\$2.9 million was derived from our recycle water supply operation services and management fees from related companies, during the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. Such management fees were derived from the provision of management services to related companies during the Track Record Period, the relevant agreements of which were terminated on or before 30 April 2018. In this connection, no relevant management fees from related companies have been generated by our Group thereafter up to and including the Latest Practicable Date.

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

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

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

### *Wastewater treatment construction services*

During the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, we recognised approximately HK\$91.2 million, HK\$32.6 million, HK\$197.2 million and HK\$61.5 million as revenue from wastewater treatment construction services for the upgrading and expansion of our Wastewater Treatment Plants.

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The following table sets forth the amount of revenue from our wastewater treatment construction services contributed by each of the Wastewater Treatment Plants during the Track Record Period:

	Year ended 31 December			Four months ended	
	2015	2016	2017	30 April	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Wastewater Treatment Plants:					
— Plant 1	7	1,139	45,510	1,709	59,536
— Plant 2	24	19,124	97,919	6,185	1,318
— Plant 3	89,952	(3,254)	—	—	—
		<i>(Note)</i>			
— Plant 4	<u>1,260</u>	<u>15,638</u>	<u>53,820</u>	<u>534</u>	<u>692</u>
<b>Total revenue from wastewater treatment construction services</b>	<u>91,243</u>	<u>32,647</u>	<u>197,249</u>	<u>8,428</u>	<u>61,546</u>

*Note:* such amount represented the adjustment to the revenue for wastewater treatment construction services recognised during the year ended 31 December 2016 as the amount set out in the relevant final accounts agreed with the relevant subcontractors in connection with the upgrading and expansion works completed on Plant 3 being approximately HK\$3.3 million less than the original estimated amount.

We have carried out various upgrading and expansion works on each of our Wastewater Treatment Plants during the Track Record Period. For further details of the upgrading and expansion works completed by our Group during the Track Record Period and the latest status of upgrading and expansion works as at the Latest Practicable Date, please refer to the section headed “Business — Our existing wastewater treatment facilities” in this document.

### *Wastewater treatment operation services*

During the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, we recognised approximately HK\$79.5 million, HK\$92.8 million, HK\$82.0 million and HK\$43.6 million as revenue from wastewater treatment operation services and recycle water supply operation services. Based on the operating margin advised by JLL, (i) for the year ended 31 December 2015, out of approximately HK\$79.5 million of revenue from wastewater treatment operation services and recycle water supply operation services, approximately HK\$60.3 million was derived from and attributable to tariffs for guaranteed basic volume and the remaining approximately HK\$19.2 million was attributable to tariffs for non-guaranteed additional volume and recycle water supply operation; (ii) for the year ended 31 December 2016, out of approximately HK\$92.8 million of revenue from wastewater treatment operation services, approximately HK\$78.6 million was derived from and attributable to tariffs for guaranteed basic volume and the remaining approximately HK\$14.2 million was attributable to tariffs for non-guaranteed additional volume and recycle water supply operation; (iii) for the year ended 31 December 2017, out of approximately HK\$82.0 million of revenue from wastewater treatment operation services, approximately HK\$66.2 million was derived from and attributable to tariffs for guaranteed basic volume and the remaining approximately HK\$15.8 million was attributable to tariffs for non-guaranteed additional volume and recycle water supply operation; and

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(iv) for the four months ended 30 April 2018, out of approximately HK\$43.6 million of revenue from wastewater treatment operation services, approximately HK\$31.7 million was derived from and attributable to tariffs for guaranteed basic volume and the remaining approximately HK\$11.9 million was attributable to tariffs for non-guaranteed additional volume and recycle water supply operation.

The following table sets forth the amount of our revenue from our wastewater operation services contributed by each of the Wastewater Treatment Plants during the Track Record Period:

	<b>Year ended 31 December</b>			<b>Four months ended</b>	
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
<b>Wastewater Treatment Plants:</b>					
— Plant 1	19,370	18,762	18,735	5,540	7,076
— Plant 2	12,629	12,204	15,157	4,160	14,201
— Plant 3	30,091	44,918	32,401	12,465	11,858
— Plant 4	<u>17,403</u>	<u>16,876</u>	<u>15,725</u>	<u>5,483</u>	<u>10,453</u>
 <b>Total revenue from wastewater treatment operation services and recycle water supply operation services</b>	 <u>79,493</u>	 <u>92,760</u>	 <u>82,018</u>	 <u>27,648</u>	 <u>43,588</u>

*Note:* revenue derived from recycle water supply operation services during the Track Record Period was related to Plant 1 and Plant 3



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<b>Four months ended 30 April 2018</b>						
<b>Average volume of wastewater treated</b>	<b>Guaranteed daily basic volume of wastewater treated</b>	<b>Additional volume in excess of the basic volume treated</b>	<b>Tariff (RMB)</b>		<b>Average utilisation during the four months ended 30 April 2018</b>	
<i>(Note 1) (A)</i>	<i>(Note 1) (B)</i>	<i>(Note 1)</i>	<i>Basic</i>	<i>Additional</i>	<i>(Note 3)</i>	
<i>(thousand m<sup>3</sup>/day)</i>	<i>(thousand m<sup>3</sup>/day)</i>	<i>(thousand m<sup>3</sup>/day)</i>			<i>(Note 2)</i>	
<b>Plant 1</b>	87	93	0	0.872	0.5232	approximately 86.6%
		<i>(Note 8)</i>				
<b>Plant 2</b>	79	47	32	2	2	approximately 105.9%
					<i>(Note 7)</i>	<i>(Note 9)</i>
<b>Plant 3</b>	60	75	0	2.489	1.4934	approximately 60.1%
		<i>(Note 8)</i>				
<b>Plant 4</b>	98	93	5	2	2	approximately 97.7%
					<i>(Note 10)</i>	

*Notes:*

- (1) Rounded to the nearest thousand cubic metres.
- (2) Addition tariff is calculated based on 60% of the basic tariff, unless otherwise stated.
- (3) Utilisation rate of our wastewater treatment facilities was calculated by dividing the actual volume of wastewater treated by the total designed capacity taking into consideration the expansion in capacity completed from time to time.
- (4) Represents the average guaranteed daily basic volume of wastewater treated prior to and after the completion of the expansion works on Plant 3 in July 2015.
- (5) Represents the additional volume in excess of the basic volume treated prior to and after the completion of the expansion works on Plant 3 in July 2015.
- (6) Represents the tariff prior to and after the completion of the expansion works on Plant 3 in July 2015.
- (7) The wastewater treatment service fees of Plant 2 is calculated based on an interim tariff of RMB2.0 effective from December 2017, which is applicable to both the basic volume and any additional volume, until the approval by our customer of tariff revision for Plant 2 in relation to the completion of the relevant upgrading and expansion works.
- (8) Plant 1 and Plant 3 processed all of the wastewater intake during the relevant period, respectively, being lower than the respective guaranteed daily basic volume, as such we were entitled to the basic tariff at the guaranteed daily basic volume at the relevant time pursuant to the Concession Agreement.

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

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

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

- (10) The wastewater treatment service fees of Plant 4 is calculated based on an interim tariff of RMB2.0 effective from January 2018, which is applicable to both the basic volume and any additional volume, until the approval by our customer of tariff revision for Plant 4 in relation to the completion of the relevant upgrading and expansion works.

The average volume of wastewater treated per day for our Wastewater Treatment Plants ranged from (i) approximately 59,000 cubic metres per day (Plant 3) to approximately 112,000 cubic metres per day (Plant 4) for the year ended 31 December 2015; (ii) approximately 66,000 cubic metres per day (Plant 2 and Plant 3) to approximately 108,000 cubic metres per day (Plant 4) for the year ended 31 December 2016; and (iii) approximately 67,000 cubic metres per day (Plant 2) to approximately 104,000 cubic metres per day (Plant 4) for the year ended 31 December 2017; and (iv) approximately 60,000 cubic metres per day (Plant 3) to approximately 98,000 cubic metres per day (Plant 4) for the four months ended 30 April 2018. For Plant 2 and Plant 3, the average utilisation rates during the Track Record Period prior to the completion of Phase I of Plant 2 expansion and the expansion works for Plant 3 were larger than 100%, which was mainly due to the supply of wastewater to Plant 2 and Plant 3 at that time being higher than their respective original designed capacity before the relevant expansion works, while there is an extra buffer in the construction design of each of our facilities intended to be used as a backup capacity to reduce downtime and which actually allowed us to cope with some unpredictable increase in the amount of wastewater supplied to our facilities from time to time beyond 100% of the designed capacity. Upon completion of the Phase I expansion works for Plant 2 and the expansion works for Plant 3, the average utilisation rates had resumed to below 100%.

The guaranteed daily basic volume of our Wastewater Treatment Plants ranged from (i) approximately 42,000 cubic metres per day (Plant 2) to approximately 83,000 cubic metres per day (Plant 1 and Plant 4) for the year ended 31 December 2015; (ii) approximately 43,000 cubic metres per day (Plant 2) to approximately 87,000 cubic metres per day (Plant 1 and Plant 4) for the year ended 31 December 2016; and (iii) approximately 41,000 cubic metres per day (Plant 2) to approximately 90,000 cubic metres per day (Plant 1 and Plant 4) for the year ended 31 December 2017; and (iv) approximately 47,000 cubic metres per day (Plant 2) to approximately 93,000 cubic metres per day (Plant 1 and Plant 4) for the four months ended 30 April 2018. Upon the completion of Plant 3 expansion work, the guaranteed daily basic volume for was increased to 70,000 cubic metres per day in July 2015.

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For the guaranteed daily basic volume, we are entitled to receive a service fee of the guaranteed daily basic volume at the basic tariff, which ranged from (i) a minimum of RMB0.8 to a maximum of RMB2.42 for the year ended 31 December 2015; (ii) a minimum of RMB0.854 to a maximum of RMB2.42 for the year ended 31 December 2016; (iii) a minimum of RMB0.854 to a maximum of RMB2.42 for the year ended 31 December 2017; and (iv) a minimum of RMB0.872 to a maximum of RMB2.489 for the four months ended 30 April 2018. As indicated in the table, after the completion of the expansion works of Plant 3, Phase I Plant 2 and Plant 4 in July 2015, December 2017 and December 2017, the basic tariff was increased to RMB2.42, RMB2.0 and RMB2.0, respectively.

For further details on the capacity of each wastewater treatment plant as at the Latest Practicable Date, please refer to the table as set out under the section headed “Business — Our existing wastewater treatment facilities” in this document.

### *Finance income from service concession arrangement*

Finance income from service concession arrangement represented imputed interest income and contributed approximately HK\$78.7 million, HK\$80.9 million, HK\$86.0 million and HK\$32.5 million, representing approximately 31.4%, 39.0%, 23.5% and 23.5% of our total revenue for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively. Financial income was based on the interest rate of 6.75% determined by JLL with reference to the yield from the PRC government bonds, local municipal bonds as well as city investment bonds (城投債).

### **Cost of sales**

During the Track Record Period, our cost of sales mainly consisted of (i) construction costs; (ii) costs of wastewater treatment operation and recycle water supply operation services; (iii) direct labour costs; (iv) amortisation of intangible assets; and (v) repair and maintenance costs.

The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
<b>Cost of sales:</b>										
Construction costs	82,949	60.5	29,679	31.1	179,317	76.8	7,662	28.5	55,951	69.2
Costs of wastewater treatment operation and recycle water supply operation services	37,646	27.4	49,910	52.3	41,169	17.6	14,103	52.5	19,531	24.2
Employee benefit expenses	10,861	7.9	10,189	10.7	8,458	3.6	3,429	12.8	4,048	5.0
Amortisation of intangible assets	1,869	1.4	1,950	2.0	2,008	0.9	639	2.4	863	1.1
Repair and maintenance costs	2,580	1.9	3,142	3.3	2,451	1.0	969	3.6	361	0.4
Others ( <i>note</i> )	1,255	0.9	580	0.6	194	0.1	57	0.2	118	0.1
<b>Total Cost of sales</b>	<u>137,160</u>	<u>100.0</u>	<u>95,450</u>	<u>100.0</u>	<u>233,597</u>	<u>100.0</u>	<u>26,859</u>	<u>100.0</u>	<u>80,872</u>	<u>100.0</u>

*Note:* Others included depreciation of property, plant and equipment, legal and professional fee and other expenses

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For the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, we recorded cost of sales of approximately HK\$137.2 million, HK\$95.5 million, HK\$233.6 million and HK\$80.9 million, respectively, representing approximately 54.7%, 46.0%, 63.8% and 58.4% of our total revenue over the same period, respectively.

During the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, construction costs represented costs for the upgrading and/or expansion works for Wastewater Treatment Plants, in connection with the Concession Agreement, which amounted approximately HK\$82.9 million, HK\$29.7 million, HK\$179.3 million and HK\$56.0 million, representing approximately 60.5%, 31.1%, 76.8% and 69.2% of our total cost of sales, respectively.

Costs of wastewater treatment operation and recycle water supply operation services primarily consisted of utility costs, costs of chemicals, sludge dewatering and removal costs and other costs associated with our wastewater treatment operation services, which amounted approximately HK\$37.6 million, HK\$49.9 million, HK\$41.2 million and HK\$19.5 million, representing approximately 27.4%, 52.3%, 17.6% and 24.2% of our total cost of sales for the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

The remaining cost of sales mainly consisted of (i) employee benefit expenses, being direct labour costs related to salaries and other employee related expenses; (ii) amortisation of intangible assets; (iii) repair and maintenance costs; and (iv) others, which amounted to approximately HK\$16.6 million, HK\$15.9 million, HK\$13.1 million and HK\$5.4 million, representing approximately 12.1%, 16.6%, 5.6% and 6.6% of our total cost of sales for the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

### *Sensitivity analysis*

The assumptions used in the sensitivity analysis are highly judgemental and interrelated, the change of one key assumption will trigger corresponding changes in other assumptions. The following sensitivity analysis illustrates the impact of hypothetical changes to the operating costs during the Track Record Period, based on increase/decrease in inflation of operating costs of 0.5% with reference to the historical fluctuation of inflation rate in the PRC:

Increase/(decrease) in inflation of operating costs	Corresponding change in profit after tax			
	Year ended 31 December			Four months ended
	2015	2016	2017	30 April 2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
+0.5%	5,868	6,297	7,023	2,755
-0.5%	(5,046)	(5,459)	(6,136)	(2,426)

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### Gross profit and gross profit margin

For the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, our gross profit amounted to approximately HK\$113.4 million, HK\$112.0 million, HK\$132.8 million and HK\$57.5 million, respectively, and our overall gross profit margin was approximately 45.3%, 54.0%, 36.2% and 41.6%, respectively.

The following table sets out the gross profit and gross profit margin attributable to the respective Wastewater Treatment Plants derived from the provision of wastewater treatment construction services, wastewater treatment operation services and recycle water supply operation services:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
(unaudited)										
Wastewater Treatment Plants:										
— Plant 1	5,649	29.2	5,264	26.5	9,188	14.3	1,774	24.5	7,674	11.5
— Plant 2	2,935	23.2	4,632	14.8	15,047	13.3	1,677	16.2	8,199	52.8
— Plant 3	15,339	12.8	9,945	23.9	9,341	28.8	4,141	33.2	4,989	42.1
— Plant 4	5,526	29.6	6,197	19.1	9,167	13.2	1,625	27.0	3,401	30.5

In connection with our gross profit derived from each of the Wastewater Treatment Plants for the provision of our wastewater treatment construction services and our wastewater treatment operation services, the fluctuations during the Track Record Period were primarily attributable to variations in revenue mix, construction costs and operation costs. In addition, the gross profit margins for upgrading and expansion services under our concession arrangement were generally lower than the gross profit margins derived from the provision of wastewater treatment operation services. During the Track Record Period, as advised by JLL, the construction profit margins for each of the Wastewater Treatment Plants in relation to the upgrading and expansion services under our concession arrangement was approximately 10.0% and the operating profit margins derived from the provision of wastewater treatment operation services for each of the Wastewater Treatment Plants was approximately 39.0%. In view of the above, in particular, the construction margin was notably lower than the operating margin, for a given financial year during the Track Record Period whereby the revenue contribution from our wastewater treatment construction services is significantly higher than the revenue contribution from our wastewater treatment operation services, without taking into account other factors, our gross profit margin derived from the Wastewater Treatment Plants is likely to be comparatively lower as a result.

As advised by JLL, as the Wastewater Treatment Plants are all under the same concession arrangement governed by the Concession Agreement, the respective construction profit margins for each of the Wastewater Treatment Plants in relation to the upgrading and expansion services under our concession arrangement were the same at approximately 10.0%; and the respective operating profit margins for each of the Wastewater Treatment Plants in relation to our wastewater treatment operation services were the same at approximately 39.0%. In determining the construction margins for the wastewater treatment construction services, and the operating margins for wastewater treatment operation services, JLL took into consideration the relevant margins of comparable companies listed in the PRC and Hong Kong. These comparable companies were either listed on the PRC or Hong Kong

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stock exchange, and principally operated in the wastewater treatment industry through BOT and/or TOT models in the PRC. For the purpose IFRIC 12 Service Concession Arrangements, the adopted construction margin and operation margin, as advised by JLL, are determined with reference to the range and the median of the construction margins and the operation margins of these comparable companies.

During the Track Record Period, the upgrading and expansion works performed on our Wastewater Treatment Plants primarily involved the construction of addition relevant facilities and/or upgrading works on our existing facilities. In general, save for a period of temporary suspension to Plant 1’s wastewater treatment operations attributable to the upgrading works for Plant 1, our Wastewater Treatment Plants maintained normal wastewater treatment operations while the relevant upgrading and expansion works were being carried out, therefore the extent and frequency of disruption to our wastewater treatment operations directly attributable to the upgrading and expansion works carried out during the Track Record Period and up to the Latest Practicable Date was not material. For further details, please refer to the paragraph headed “Business — Status of wastewater treatment operations during upgrading and expansion works” in this document.

During the four months ended 30 April 2018, (i) the relatively low gross profit margin of Plant 1 was mainly attributable to the substantial construction works being undertaken during the period; (ii) the relatively high gross profit margin of Plant 2 was primarily attributable to the combined effects of (a) the average volume of wastewater treated by Plant 2 of approximately 79,000 cubic metres per day is notably higher than the guaranteed daily basic volume of wastewater treated of approximately 47,000 cubic metres per day; and (b) wastewater treatment service fees of Plant 2 being calculated based on an interim tariff of RMB2.0, effective from December 2017, is applicable to both the basic volume and any additional volume, until the approval by our customer of tariff revision for Plant 2 in relation to the completion of the relevant upgrading and expansion works; and (iii) the relatively high gross profit margin of Plant 3 was primarily attributable to (a) no construction revenue was derived from Plant 3 during the period; and (b) revenue of approximately HK\$2.1 million was derived from recycle water supply operation services.

For further details of our gross profit and gross profit margin during the Track Record Period, please refer to the section headed “Financial Information — Period to period comparison of results of operations” in this document.

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### Other income

Other income primarily consisted of interest income, VAT refund and others. The following table sets forth a breakdown of our other income during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Interest income	296	8.8	429	17.1	641	22.5	148	29.0	347	45.6
VAT refund ( <i>note</i> )	1,970	58.6	1,795	71.4	1,944	68.3	284	55.7	345	45.3
Others	<u>1,094</u>	<u>32.6</u>	<u>290</u>	<u>11.5</u>	<u>262</u>	<u>9.2</u>	<u>78</u>	<u>15.3</u>	<u>69</u>	<u>9.1</u>
<b>Total Other Income</b>	<u><u>3,360</u></u>	<u><u>100.0</u></u>	<u><u>2,514</u></u>	<u><u>100.0</u></u>	<u><u>2,847</u></u>	<u><u>100.0</u></u>	<u><u>510</u></u>	<u><u>100.0</u></u>	<u><u>761</u></u>	<u><u>100.0</u></u>

*Note:* 70% of the VAT paid by our Group was refunded according to the CaiShui [2015] No. 78 during the Track Record Period. In addition, our Group was eligible for compensation for the remaining 30% of the VAT payment from Yinchuan Construction Bureau under the Concession Agreement during the Track Record Period. Hence, our Group recognised these VAT refund attributable to intangible assets as other income during the three years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

For the year ended 31 December 2015, VAT refund and others were the largest two items under the other income balance, which in aggregate, contributed to approximately HK\$3.1 million. For each of the two years ended 31 December 2016 and 2017 and the four months ended 30 April 2018, VAT refund and interest income were the largest two items under the other income balance, which in aggregate, contributed to approximately HK\$2.2 million, HK\$2.6 million and HK\$0.7 million, respectively.

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### Other gains and losses

Other gains and losses primarily consisted of net gains on disposal of property, plant and equipment, net fair value gains on financial assets at fair value through profit or loss, net foreign exchange gains/(losses) and others. The following table sets forth a breakdown of our other gains and losses during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(unaudited)									
Net gains on disposal of property, plant and equipment	52	1.5	118	12.0	7	(0.3)	—	—	—	—
Net fair value gains on financial assets at fair value through profit or loss	1,401	41.7	1,540	156.8	913	(29.6)	675	(62.0)	476	(25.4)
Net foreign exchange gains/(losses)	1,917	57.1	(666)	(67.8)	(4,001)	129.8	(1,761)	161.7	(2,453)	130.8
Others ( <i>note</i> )	<u>(12)</u>	<u>(0.3)</u>	<u>(10)</u>	<u>(1)</u>	<u>(2)</u>	<u>0.1</u>	<u>(3)</u>	<u>0.3</u>	<u>101</u>	<u>(5.4)</u>
<b>Total Other gains/(losses)</b>	<b><u>3,358</u></b>	<b><u>100.0</u></b>	<b><u>982</u></b>	<b><u>100.0</u></b>	<b><u>(3,083)</u></b>	<b><u>100.0</u></b>	<b><u>(1,089)</u></b>	<b><u>100.0</u></b>	<b><u>(1,876)</u></b>	<b><u>100.0</u></b>

*Note:* Others includes gain on deregistration of a subsidiary and other gains and losses.

For the two years ended 31 December 2015 and 2016, on a net basis, other gains amounted to approximately HK\$3.4 million and HK\$1.0 million, respectively, and for the year ended 31 December 2017 and the four months ended 30 April 2018, other losses (on a net basis), amounted to approximately HK\$3.1 million and HK\$1.9 million. During the Track Record Period, (i) the net fair value gains on financial assets at fair value through profit or loss; and (ii) the net foreign exchange gains/(losses), primarily related to the balance due to Taliworks Corporation Berhad as at 31 December 2015 and due to LGB (HK) as at 31 December 2016 and 2017 and 30 April 2018, respectively, which were equity financing provided to our Group in foreign currencies such as US\$, SG\$, RM, RMB and HK\$, were the two significant items under the other gains and losses balance.

## FINANCIAL INFORMATION

### General and administrative expenses

During the Track Record Period, administrative expenses primarily consisted of (i) employee benefit expenses, primarily being salaries and staff costs; (ii) travelling expenses; (iii) legal and professional fees; (iv) office expenses; (v) rental expenses; and (vi) general expenses. In addition to the above, during the four months ended 30 April 2018, the administrative expenses also included [REDACTED] expenses.

	Year ended 31 December						Four months ended 30 April			
	2015		2016		2017		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Employee benefit expenses	3,961	46.9	4,726	47.7	5,364	53.5	2,262	62.6	2,260	18.6
Travelling and transportation expenses	1,530	18.1	2,416	24.3	2,203	22.0	533	14.7	381	3.1
Legal and professional fees	680	8.0	800	8.1	56	0.6	9	0.2	18	0.2
Office expenses	571	6.8	505	5.1	651	6.5	239	6.6	203	1.7
Rental expenses	344	4.1	333	3.3	339	3.4	109	3.0	123	1.0
[REDACTED] expenses	—	—	—	—	—	—	—	—	8,374	69.0
General expenses	<u>1,364</u>	<u>16.1</u>	<u>1,138</u>	<u>11.5</u>	<u>1,404</u>	<u>14.0</u>	<u>465</u>	<u>12.9</u>	<u>781</u>	<u>6.4</u>
<b>Total General and Administrative Expenses</b>	<u><u>8,450</u></u>	<u><u>100.0</u></u>	<u><u>9,918</u></u>	<u><u>100.0</u></u>	<u><u>10,017</u></u>	<u><u>100.0</u></u>	<u><u>3,617</u></u>	<u><u>100.0</u></u>	<u><u>12,140</u></u>	<u><u>100.0</u></u>

General and administrative expenses, excluding [REDACTED] expenses, amounted to approximately HK\$8.5 million, HK\$9.9 million, HK\$10.0 million and HK\$3.8 million for the three years ended 31 December 2015, 2016, 2017 and the four months ended 30 April 2018, respectively, which accounted for approximately 3.4%, 4.8%, 2.7% and 2.7% of our total revenue during the respective periods. The largest two items under general and administrative expenses, excluding [REDACTED] expenses, were (i) employee benefit expenses; and (ii) travelling and transportation expenses, which in aggregate, amounted to approximately HK\$5.5 million, HK\$7.1 million and HK\$7.6 million, respectively. For the four months ended 30 April 2018, the largest two items under general and administrative expenses, excluding [REDACTED] expenses, were (i) employee benefit expenses; and (ii) general expenses, which in aggregate, amounted to approximately HK\$3.0 million.

For further details on [REDACTED] expenses, of which approximately HK\$[REDACTED] was recognised during the four months ended 30 April 2018, please refer to the paragraph headed “[REDACTED] Expenses” in this section of the document.

The remaining balance of general and administrative expenses mainly consisted of legal and professional fees, office expenses, rental expenses and general expenses.

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### Finance costs

Our finance costs of approximately HK\$50.8 million, HK\$42.8 million, HK\$42.0 million and HK\$14.9 million for the three years ended 31 December 2015, 2016, 2017 and the four months ended 30 April 2018 respectively, mainly consisted of (i) interest expenses on borrowings after deduction of interest capitalised as intangible assets; and (ii) interest expenses on loans from intermediate holding company. As at each of the year ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, the annual interest rates for our borrowings were approximately 5.5% to 7.2%, approximately 5.0% to 6.5%, approximately 5.0% to 5.9% and approximately 5.0% to 5.9%, respectively. Our Group had no bank overdrafts as at 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018.

### INCOME TAX EXPENSES

Our Group recorded income tax expense of approximately HK\$15.7 million, HK\$17.2 million, HK\$21.7 million and HK\$10.0 million for the three years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, respectively.

The following table sets forth a breakdown of our Group’s income tax expenses, reconciled to the profit before taxation, during the Track Record Period:

	Year ended 31 December			Four months ended	
	2015	2016	2017	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit before income tax	<u>60,794</u>	<u>62,729</u>	<u>80,559</u>	<u>19,456</u>	<u>29,362</u>
Taxation at an applicable rate of 25%	15,199	15,682	20,140	4,864	7,341
Difference arising from different tax jurisdiction	(94)	153	525	221	258
Incomes not subject to income tax	(266)	(57)	(1)	—	(225)
Expenses not deductible for tax purposes	399	642	990	513	2,600
Tax losses not recognised	530	754	43	74	—
Others	<u>(27)</u>	<u>—</u>	<u>(38)</u>	<u>—</u>	<u>—</u>
Income tax expense	15,741	17,174	21,659	5,672	9,974
Effective tax rate	25.9%	27.4%	26.9%	29.2%	34.0%

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had no material dispute or unresolved tax issues with the relevant tax authorities.

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### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Four months ended 30 April 2018 compared with four months ended 30 April 2017

##### *Revenue*

Our revenue increased from approximately HK\$63.8 million for the four months ended 30 April 2017 to approximately HK\$138.4 million for the four months ended 30 April 2018, representing a period-on-period increase of approximately HK\$74.6 million or approximately 116.8%, which was primarily attributable to the increase in revenue derived from our wastewater treatment construction services, further analysis of which is set out below:

- revenue derived from our wastewater treatment construction services increased from approximately HK\$8.4 million for the four months ended 30 April 2017 to approximately HK\$61.5 million for the four months 30 April 2018, representing a period-on-period increase of approximately HK\$53.1 million or approximately 632.1%. Our revenue from wastewater treatment construction services for the four months ended 30 April 2018 was primarily attributable to the upgrading works related to Plant 1 involving the improvement in wastewater treatment standard from Class II to Class IA, which is expected to be completed by the end of 2018;
- revenue derived from our wastewater treatment operation services increased from approximately HK\$26.3 million for the four months ended 30 April 2017 to approximately HK\$41.5 million for the four months 30 April 2018, representing a period-on-period increase of approximately HK\$15.2 million or approximately 57.8%, such increase was primarily attributable to the increased tariff for Plant 2 and Plant 4, of which our wastewater treatment service fees are calculated based on an interim tariff of RMB2.0 per cubic meter effective from December 2017 and January 2018, respectively, which is applicable to both the basic volume and any additional volume, until the approval by our customer of the respective tariff revision for Plant 2 and Plant 4 in relation to the completion of the relevant upgrading and expansion works;
- revenue derived from our finance income from service concession arrangement increased from approximately HK\$27.4 million for the four months ended 30 April 2017 to approximately HK\$32.5 million for the four months ended 30 April 2018, representing a period-on-period increase of approximately HK\$5.1 million or approximately 18.6%, such increase was primarily attributable to the increase in receivables under the service concession arrangement mainly as a result of the upgrading and expansion works completed by our Group; and
- the remaining revenue was primarily attributable to our recycle water supply operation services and management fees from related companies, which in aggregate, amounted to approximately HK\$1.7 million and HK\$2.9 million for the four months ended 30 April 2017 and 2018, respectively.

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### *Cost of sales*

Our cost of sales increased from approximately HK\$26.9 million for the four months ended 30 April 2017 to approximately HK\$80.9 million for the four months 30 April 2018, representing a period-on-period increase of approximately HK\$54.0 million or approximately 200.7%, which was primarily attributable to the significant increase in construction costs, further analysis of which is set out below:

- construction costs increased from approximately HK\$7.7 million for the four months ended 30 April 2017 to approximately HK\$56.0 million for the four months ended 30 April 2018, representing an increase of approximately HK\$48.3 million or approximately 627.3%. The construction costs recorded during the four months ended 30 April 2018 was mainly attributable to the construction costs incurred for the upgrading works related to Plant 1 involving the improvement in wastewater treatment standard from Class II to Class IA, which is expected to be completed by the end of 2018;
- costs of wastewater treatment operation and recycle water supply operation services increased approximately HK\$5.4 million or approximately 38.3%, from approximately HK\$14.1 million for the four months ended 30 April 2017 to approximately HK\$19.5 million for the four months ended 30 April 2018. Such increase was mainly attributable to our increase in costs, in particular, chemicals costs and utility costs, following the completion of the Phase I of Plant 2 expansion and Plant 4 upgrade in December 2017; and
- the remaining cost of sales recorded an increase from approximately HK\$5.1 million for the four months ended 30 April 2017 to approximately HK\$5.4 million for the four months ended 30 April 2018, which was primarily related to a period-on-period increase of approximately HK\$0.6 million in employee benefit expenses.

### *Gross profit and gross profit margin*

Our gross profit increased from approximately HK\$37.0 million for the four months ended 30 April 2017 to approximately HK\$57.5 million for the four months ended 30 April 2018, representing a period-on-period increase of approximately HK\$20.5 million or approximately 55.4%, which was primarily attributable to the increase in revenue derived from our wastewater treatment construction services during the four months ended 30 April 2018. As our revenue composition during the respective period under review varied, our gross profit margin decreased from approximately 57.9% for the four months ended 30 April 2017 to approximately 41.6% for the four months ended 30 April 2018, further details of which are set out below:

- gross profit derived from our wastewater treatment construction services, our wastewater treatment operation services and our recycle water supply operation services, amounted to approximately HK\$9.2 million and HK\$24.3 million for the four months ended 30 April 2017 and 2018, respectively;

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- as the gross profit margin for our upgrading and expansion services under the Concession Agreement, which contributed approximately 44.5% of our revenue for the four months ended 30 April 2018 (four months ended 30 April 2017: approximately 13.2%), were lower than our gross profit margin derived from the provision of wastewater treatment operation services, which contributed approximately 30.0% of our revenue for the four months ended 30 April 2018 (four months ended 30 April 2017: approximately 41.2%);
- during the four months ended 30 April 2018, the gross profit derived from our upgrading and expansion services under the Concession Agreement were mainly related to the upgrading works related to Plant 1 involving the improvement in wastewater treatment standard from Class II to Class IA; and
- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK\$27.4 million and HK\$32.5 million for the four months ended 30 April 2017 and 2018, respectively.

### *Other income*

Other income, which mainly comprised interest income and VAT refund, was largely stable at approximately HK\$0.5 million and HK\$0.8 million for the 30 April 2017 and 2018, respectively.

### *Other gains and losses*

Our Group recorded other losses of approximately HK\$1.1 million and HK\$1.9 million for the four months ended 30 April 2017 and 2018, respectively, which was primarily related to the net effect of (i) the net foreign exchange losses of approximately HK\$1.8 million and HK\$2.5 million, primarily related to the balance due to LGB (HK) as at 30 April 2017 and 2018, which were equity financing provided to our Group in foreign currencies such as US\$, SG\$, RM, RMB and HK\$; and (ii) the net fair value gains on financial assets at fair value through profit or loss of approximately HK\$0.7 million and HK\$0.5 million, for the four months ended 30 April 2017 and 2018, respectively.

### *General and administrative expenses*

General and administrative expenses, excluding the [REDACTED] expenses of approximately HK\$8.4 million recognised during the four months ended 30 April 2018, was largely stable at approximately HK\$3.6 million and HK\$3.8 million for the four months period ended 30 April 2017 and 2018, respectively. The largest expense item, excluding [REDACTED] expenses, was employee benefit expenses, which amounted to approximately HK\$2.3 million and HK\$2.3 million the four months period ended 30 April 2017 and 2018, respectively.

### *Finance costs*

Finance costs increased by approximately HK\$1.6 million, or approximately 12.0%, to approximately HK\$14.9 million for the four months ended 30 April 2018 from approximately HK\$13.3 million for the four months ended 30 April 2017. Such increase was mainly attributable to the increase in interest expenses on borrowings of approximately HK\$1.6 million.

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### *Income tax expenses*

We incurred income tax expense of approximately HK\$5.7 million for the four months ended 30 April 2017 and approximately HK\$10.0 million for the four months ended 30 April 2018 at effective tax rates of approximately 29.2% and 34.0%, respectively. The increase in effective tax rate was mainly attributable to the increase in non-tax deductible expenses recorded by our Group during the four months ended 30 April 2018.

### *Profit and total comprehensive income for the year*

As a result of the foregoing factors, our profit for the year increased from approximately HK\$13.8 million for the four months ended 30 April 2017 to approximately HK\$19.4 million for the four months ended 30 April 2018, representing an increase of approximately HK\$5.6 million, or approximately 40.7%.

The total comprehensive income for the four months ended 30 April 2017 amounted to approximately HK\$17.8 million compared to total comprehensive income for the four months ended 30 April 2018 of approximately HK\$44.7 million, the difference between the profit for the year and the total comprehensive income for the respective periods was due to currency translation differences from the translation of RMB being our functional currency to HK\$ being our reporting currency.

### **Year ended 31 December 2017 compared with year ended 31 December 2016**

#### *Revenue*

Our revenue increased from approximately HK\$207.4 million for the year ended 31 December 2016 to approximately HK\$366.4 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK\$159.0 million or approximately 76.7%, which was primarily attributable to the increase in revenue derived from our wastewater treatment construction services, further analysis of which is set out below:

- revenue derived from our wastewater treatment construction services increased from approximately HK\$32.6 million for the year ended 31 December 2016 to approximately HK\$197.2 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK\$164.6 million or approximately 504.9%, such increase was primarily attributable to the upgrading and expansion works on Phase I of Yinchuan Wastewater Treatment Plant 2 and Yinchuan Wastewater Treatment Plant 4 completed by our Group during the year ended 31 December 2017;
- revenue derived from our finance income from service concession arrangement increased from approximately HK\$80.9 million for the year ended 31 December 2016 to approximately HK\$86.0 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK\$5.1 million or approximately 6.3%, such increase was primarily attributable to the increase in receivables under the service concession arrangement mainly as a result of the upgrading and expansion works completed by our Group;

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- the aforesaid increase in revenue was partially offset by a decrease in revenue from our wastewater treatment operation services of approximately HK\$11.0 million or approximately 12.6%, from approximately HK\$87.6 million for the year ended 31 December 2016 to approximately HK\$76.6 million for the year ended 31 December 2017. As our wastewater treatment operation services revenue is recognised on the basis of actual costs with a reasonable profit margin, which was advised by JLL, the decrease was mainly attributable to our reduction in costs, in particular, chemicals costs; and
- the remaining revenue was primarily attributable to our recycle water supply operation services and management fees from related companies, which remained largely stable at approximately HK\$6.3 million and HK\$6.5 million for the two years ended 31 December 2016 and 2017, respectively.

### *Cost of sales*

Our cost of sales increased from approximately HK\$95.5 million for the year ended 31 December 2016 to approximately HK\$233.6 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK\$138.1 million or approximately 144.6%, which was primarily attributable to the significant increase in construction costs, further analysis of which is set out below:

- construction costs increased from approximately HK\$29.7 million for the year ended 31 December 2016 to approximately HK\$179.3 million for the year ended 31 December 2017, representing an increase of approximately HK\$149.6 million or approximately 503.7%. The construction costs recorded during the year ended 31 December 2017 was mainly attributable to the construction costs incurred for upgrading and expansion of (i) Phase I of Yinchuan Wastewater Treatment Plant 2; and (ii) Yinchuan Wastewater Treatment Plant 4, such construction costs mainly consisted of subcontractors costs and costs of installation of equipments;
- the aforesaid increase in construction costs was partially offset by a decrease in costs of wastewater treatment operation of approximately HK\$8.7 million or approximately 17.4%, from approximately HK\$49.9 million for the year ended 31 December 2016 to approximately HK\$41.2 million for the year ended 31 December 2017. Such decrease was mainly attributable to our reduction in costs, in particular, (i) chemicals costs; and (ii) employee benefit expenses of approximately HK\$1.7 million or approximately 16.7%, from approximately HK\$10.2 million for the year ended 31 December 2016 to approximately HK\$8.5 million for the year ended 31 December 2017, which was mainly attributable to costs for members of staff who were directly deployed for and attributable to the upgrading and expansion works, were classified as construction costs;
- the remaining cost of sales, which consisted primarily of amortisation of intangible assets, repair and maintenance costs and other costs, recorded a slight decrease from approximately HK\$5.7 million for the year ended 31 December 2016 to approximately HK\$4.7 million for the year ended 31 December 2017, such movement was mainly attributable to a year-on-year decrease of approximately HK\$0.7 million in repair and maintenance costs.

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### *Gross profit and gross profit margin*

Our gross profit increased from approximately HK\$112.0 million for the year ended 31 December 2016 to approximately HK\$132.8 million for the year ended 31 December 2017, representing a year-on-year increase of approximately HK\$20.8 million or approximately 18.6%, which was primarily attributable to the increase in revenue derived from our wastewater treatment construction services during the year ended 31 December 2017. Our gross profit margin decreased from approximately 54.0% for the year ended 31 December 2016 to approximately 36.2% for the year ended 31 December 2017, which were primarily attributable to the change in revenue mix for each of the financial years. Further analysis on the gross profit and gross profit margin is set out below:

- gross profit derived from our wastewater treatment construction services, our wastewater treatment operation services and our recycle water supply operation services, amounted to approximately HK\$30.0 million and HK\$45.7 million for the year ended 31 December 2016 and 2017, respectively;
- our gross profit margin for the upgrading and expansion services under the Concession Agreement, which contributed approximately 53.8% of our revenue for the year ended 31 December 2017 (2016: approximately 15.8%), were lower than our gross profit margin derived from the provision of wastewater treatment operation services, which contributed approximately 20.9% of our revenue for the year ended 31 December 2017 (2016: approximately 42.2%);
- during the year ended 31 December 2017, the gross profit derived from our upgrading and expansion services under the Concession Agreement were mainly related to Phase I of Yinchuan Wastewater Treatment Plant 2 and Yinchuan Wastewater Treatment Plant 4, respectively; and
- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK\$80.9 million and HK\$86.0 million for the year ended 31 December 2016 and 2017, respectively.

### *Other income*

Other income increased by approximately HK\$0.3 million, or approximately 12.0%, to approximately HK\$2.8 million for the year ended 31 December 2017 from approximately HK\$2.5 million for the year ended 31 December 2016, such increase was mainly attributable to the increase in VAT refund attributable to intangible assets of approximately HK\$0.1 million.

### *Other gains and losses*

Our Group recorded other gains of approximately HK\$1.0 million for the year ended 31 December 2016 compared to other losses of approximately HK\$3.1 million for the year ended 31 December 2017. Such movement in the other gains and losses balance was mainly attributable to the net effect of (i) the increase in net foreign exchange losses of approximately HK\$3.3 million, primarily

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related to the balance due to LGB (HK) as at 31 December 2016 and 2017 which were equity financing provided to our Group in foreign currencies such as US\$, SG\$, RM, RMB and HK\$; and (ii) the decrease in net fair value gains on financial assets at fair value through profit or loss of approximately HK\$0.6 million.

### *General and administrative expenses*

General and administrative expenses remained largely stable at approximately HK\$9.9 million and HK\$10.0 million for the year ended 31 December 2016 and 2017, respectively, which was primary attributable to the net effect of (i) an increase in employee benefit expenses of approximately HK\$0.6 million; and (ii) a decrease in travelling and transportation expenses and legal and professional fee of approximately HK\$0.2 million and HK\$0.7 million, respectively.

### *Finance costs*

Finance costs decreased by approximately HK\$0.8 million, or approximately 2.0%, to approximately HK\$42.0 million for the year ended 31 December 2017 from approximately HK\$42.8 million for the year ended 31 December 2016. Such decrease was mainly attributable to the decrease in interest expenses on borrowing of approximately HK\$0.7 million, of which approximately HK\$0.1 million of interest expenses was capitalised as intangible assets for the year ended 31 December 2017.

### *Income tax expense*

We incurred income tax expense of approximately HK\$21.7 million for the year ended 31 December 2017 and approximately HK\$17.2 million for the year ended 31 December 2016 at effective tax rates of approximately 26.9% and 27.4%, respectively. The decrease in effective tax rate was mainly attributable to the increase in utilisation of tax losses.

### *Profit and total comprehensive income for the year*

As a result of the foregoing factors, our profit for the year increased from approximately HK\$45.6 million for the year ended 31 December 2016 to approximately HK\$58.9 million for the year ended 31 December 2017, representing an increase of approximately HK\$13.3 million, or approximately 29.2%.

The total comprehensive income for the year ended 31 December 2016 amounted to approximately HK\$7.6 million compared to total comprehensive income for the year ended 31 December 2017 of approximately HK\$101.2 million, the difference between the profit for the year and the total comprehensive income for the year was due to currency translation differences from the translation of RMB being our functional currency to HK\$ being our reporting currency.

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### Year ended 31 December 2016 compared with year ended 31 December 2015

Our revenue decreased from approximately HK\$250.5 million for the year ended 31 December 2015 to approximately HK\$207.4 million for the year ended 31 December 2016, representing a year-on-year decrease of approximately HK\$43.1 million or approximately 17.2%, which was primarily attributable to the decrease in revenue derived from our wastewater treatment construction services, further analysis of which is set out below:

- revenue derived from our wastewater treatment construction services decreased from approximately HK\$91.2 million for the year ended 31 December 2015 to approximately HK\$32.6 million for the year ended 31 December 2016, representing a year-on-year decrease of approximately HK\$58.6 million or approximately 64.3%, such decrease was primarily attributable to substantial upgrading and expansion works on Yinchuan Wastewater Treatment Plant 3 was completed by our Group during the year ended 31 December 2015;
- our Group also recorded an increase in revenue from our wastewater treatment operation services of approximately HK\$14.4 million or approximately 19.6%, from approximately HK\$73.2 million for the year ended 31 December 2015 to approximately HK\$87.6 million for the year ended 31 December 2016. Such increase was mainly attributable to the completion of the relevant upgrading and expansion works of Yinchuan Wastewater Treatment Plant 3, which increased our Group's chemical and utilities costs;
- revenue derived from our finance income from service concession arrangement, representing the imputed interest, remained stable at approximately HK\$78.7 million for the year ended 31 December 2015 and approximately HK\$80.9 million for the year ended 31 December 2016, representing a year-on-year increase of approximately HK\$2.2 million or approximately 2.8%; and
- the remaining revenue was primarily attributable to our recycle water supply operation services and management fees from a related company, which recorded a decrease from approximately HK\$7.4 million for the year ended 31 December 2015 to approximately HK\$6.3 million for the year ended 31 December 2016 due to the decrease in revenue from recycle water supply operation services.

#### *Cost of sales*

Our cost of sales decreased from approximately HK\$137.2 million for the year ended 31 December 2015 to approximately HK\$95.5 million for the year ended 31 December 2016, representing a year-on-year decrease of approximately HK\$41.7 million or approximately 30.4%, which was primarily attributable to the decrease in construction costs, further analysis of which is set out below:

- construction costs decreased from approximately HK\$82.9 million for the year ended 31 December 2015 to approximately HK\$29.7 million for the year ended 31 December 2016, representing a decrease of approximately HK\$53.2 million or approximately 64.2%. The construction costs recorded during the year ended 31 December 2015 was mainly attributable to substantial upgrading and expansion construction works on Yinchuan Wastewater Treatment Plant 3 were completed by our Group during the year ended 31 December 2015;

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- the aforesaid decrease in cost of sales was partially offset by the increase in costs for our wastewater treatment operation, partly due to the relevant designed wastewater treatment capacity increased from 50,000 cubic metres/day to 100,000 cubic metres/day and the water discharge standard improved from Class II to Class IA after the completion of the upgrading and expansion works for Yinchuan Wastewater Treatment Plant 3 during the year ended 31 December 2015. The cost of sales for our wastewater treatment operation services primarily consisted of the chemical costs, utility costs, sludge dewatering and removal treatment, and other related costs, increased from approximately HK\$37.6 million for the year ended 31 December 2015 to approximately HK\$49.9 million for the year ended 31 December 2016;
- during the year ended 31 December 2015 and 2016, employee benefit expenses under cost of sales remained largely stable at approximately HK\$10.9 million and HK\$10.2 million, respectively; and
- the remaining cost of sales, which consisted primarily of amortisation of intangible assets, and repair and maintenance costs, also remained stable at approximately HK\$5.7 million for each of the years ended 31 December 2015 and 2016, respectively.

### *Gross profit and gross profit margin*

Our gross profit remained largely stable at approximately HK\$113.4 million and HK\$112.0 million for the year ended 31 December 2015 and 2016, respectively, such year-on-year movement which was primarily attributable to the net effect of the increase in gross profit derived from our wastewater treatment operation services and finance income from service concession arrangement being partially offset by the decrease in gross profit from wastewater treatment construction services during the year ended 31 December 2016.

Our gross profit margin increased from approximately 45.3% for the year ended 31 December 2015 to approximately 54.0% for the year ended 31 December 2016, which were primarily attributable to the change in revenue mix for each of the financial years and the combined effect of the following:

- gross profit derived from our wastewater treatment construction services, our wastewater treatment operation services and our recycle water supply operation services, amounted to approximately HK\$33.6 million and HK\$30.0 million for the year ended 31 December 2015 and 2016, respectively;
- our gross profit margin for our wastewater treatment operation services, which contributed approximately 42.2% of our revenue for the year ended 31 December 2016 (2015: approximately 29.2%), was higher than the gross profit margin derived from our upgrading and expansion services under the Concession Agreement, which contributed approximately 15.8% of our revenue for the year ended 31 December 2016 (2015: approximately 36.4%);

## FINANCIAL INFORMATION

- attributable to the revenue mix recorded by the respective Wastewater Treatment Plants, in particular, our wastewater treatment construction services revenue decreased year-on-year as substantial of the upgrading and expansion works on Yinchuan Wastewater Treatment Plant 3 was completed by our Group during the year ended 31 December 2015, which was partially offset by our increase in revenue from wastewater treatment operation services for the year ended 31 December 2016; and
- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK\$78.7 million and HK\$80.9 million for the year ended 31 December 2015 and 2016, respectively.

### *Other income*

Other income decreased by approximately HK\$0.9 million to approximately HK\$2.5 million for the year ended 31 December 2016 from approximately HK\$3.4 million for the year ended 31 December 2015. Such decrease was mainly attributable to our Group recognised an one-off government subsidy for the year ended 31 December 2015 compared to approximately HK\$0.6 million for the year ended 31 December 2015.

### *Other gains and losses*

Our Group recorded other gains of approximately HK\$3.4 million for the year ended 31 December 2015 compared to approximately HK\$1.0 million for the year ended 31 December 2016. The decrease to other gains was mainly due to our Group recorded a net foreign exchange loss of approximately HK\$0.7 million for the year ended 31 December 2016 compared to a net foreign exchange gain of approximately HK\$1.9 million for the year ended 31 December 2015, primarily due to the balance due to Taliworks Corporation Berhad as at 31 December 2015 and due to LGB (HK) as at 31 December 2016 which were equity financing provided to our Group in foreign currencies such as US\$, SG\$, RM, RMB and HK\$.

### *General and administrative expenses*

General and administrative expenses increased from approximately HK\$8.5 million for the year ended 31 December 2015 to approximately HK\$9.9 million for the year ended 31 December 2016, which was primary attributable to (i) the increase in employee benefit expenses of approximately HK\$0.8 million; and (ii) the increase in travelling and transportation expenses of approximately HK\$0.9 million.

### *Finance costs*

Finance costs decreased by approximately HK\$8.0 million, or approximately 15.7%, to approximately HK\$42.8 million for the year ended 31 December 2016 from approximately HK\$50.8 million for the year ended 31 December 2015. Such decrease was mainly attributable to the decrease in borrowings and annual interest rates, which resulted in a decrease in interest expenses on borrowing of approximately HK\$8.1 million.

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### *Income tax expense*

We incurred income tax expense of approximately HK\$15.7 million and HK\$17.2 million for the year ended 31 December 2015 and 2016, respectively, at an effective tax rate of approximately 25.9% and 27.4%, respectively. The increase in our effective tax rate was mainly attributable to the combined effect of (i) the increase in utilisation of tax losses; and (ii) the decrease in temporary difference attributable to receivable under service concession arrangement and intangible asset.

### *Profit and total comprehensive income for the year*

As a result of the foregoing factors, our profit for the year remained stable at approximately HK\$45.1 million for the year ended 31 December 2015 and approximately HK\$45.6 million for the year ended 31 December 2016, representing an increase of approximately HK\$0.5 million, or approximately 1.1%.

The total comprehensive income for the year ended 31 December 2015 amounted to approximately HK\$18.2 million compared to total comprehensive income for the year ended 31 December 2016 of approximately HK\$7.6 million, the difference between the profit for the year and the total comprehensive income for the year was due to currency translation differences from the translation of RMB being our functional currency to HK\$ being our reporting currency.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary of Cash Flow Movements

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

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

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### Cash flow analysis

The liquidity and level of capital resources of our Group mainly related to initial investments in our Wastewater Treatment Plants and upgrading and expansions of our Wastewater Treatment Plants as well as costs related to the operation and maintenance of our Wastewater Treatment Plants. During the Track Record Period, our Group financed our upgrading and expansion works, working capital and other liquidity requirements principally from cash generated from our operations, bank borrowing, advance from Shareholders and shareholder's equity. Our Directors believe that our Group's operations will be funded with a combination of various sources, including cash generated from our operations, bank borrowings, the net proceeds from the [REDACTED] as well as other external equity and debt financing.

#### *Net cash generated from/used in operating activities*

During the Track Record Period, our Group derived our cash inflow from operating activities principally through the receipt of payments for the provision of our wastewater treatment services pursuant to the Concession Agreement. Our cash outflows from operating activities were primarily used for the payment of construction costs, costs of wastewater treatment operation, including utility, and chemicals, employee expenses and other operating costs in relation to our Wastewater Treatment Plants.

For the year ended 31 December 2015, our Group had net cash generated from operating activities of approximately HK\$48.6 million, which was largely attributable to the combined effect of (i) operating profit before movements in working capital of approximately HK\$103.5 million, comprised primarily of profit before income tax of approximately HK\$60.8 million added back finance costs of approximately HK\$51.0 million; and (ii) the net working capital outflow of approximately HK\$54.8 million, which was primarily attributable to (a) the increase in receivable under service concession arrangement of approximately HK\$96.5 million; (b) the increase in trade and other payables of approximately HK\$30.0 million; and (c) the decrease in trade and other receivables of approximately HK\$16.7 million.

For the year ended 31 December 2016, our Group had net cash generated from operating activities of approximately HK\$41.0 million, which was largely attributable to the net effect of (i) comprising of operating profit before movements in working capital of approximately HK\$103.1 million, comprised primarily of profit before income tax of approximately HK\$62.7 million added back finance costs of approximately HK\$42.8 million; and (ii) the net working capital outflow of approximately HK\$62.1 million, which was primarily attributable to the increase in receivables under service concession arrangement of approximately HK\$77.1 million and the increase in trade and other payables of approximately HK\$19.0 million.

For the year ended 31 December 2017, our Group had net cash generated from operating activities of approximately HK\$35.7 million, which was largely attributable to the combined effect of (i) operating profit before movements in working capital of approximately HK\$108.3 million, comprised primarily of profit before income tax of approximately HK\$80.6 million added back finance costs of approximately HK\$42.1 million; and (ii) the net working capital outflow of approximately HK\$72.6 million which was primarily attributable to (a) the increase in receivables under service concession arrangement of approximately HK\$85.5 million; (b) the increase in trade and other payables of approximately HK\$45.3 million; and (c) the increase in trade and other receivables of approximately HK\$24.5 million.

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

### *Net cash from/used in investing activities*

Our cash flow from investing activities during the Track Record Period primarily consisted of cash utilised on the in intangible assets, concession receivables, as well as cash used for additions and cash generated from proceeds from the disposal of financial assets at fair value through profit or loss.

We recorded net cash used in investing activities amounting to approximately HK\$83.4 million for the year ended 31 December 2015, net cash generated from investing activities of approximately HK\$18.2 million for the year ended 31 December 2016 and net cash used in investing activities of approximately HK\$4.9 million for the year ended 31 December 2017.

The net cash used in investing activities during the year ended 31 December 2015 was primarily attributable to the increase in financial assets at fair value through profit or loss of approximately HK\$134.3 million which was partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately HK\$50.5 million.

The net cash generated from investing activities during the year ended 31 December 2016 was primarily attributable to the proceeds from disposal of financial assets at fair value through profit or loss of approximately HK\$35.8 million was partially offset by the increase in financial assets at fair value through profit or loss of approximately HK\$17.9 million.

The net cash used in investing activities during the year ended 31 December 2017 was primarily attributable to the increase in financial assets at fair value through profit or loss of approximately HK\$35.9 million. The aforesaid cash outflow was partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately HK\$31.1 million.

The net cash generated investing activities for four months ended 30 April 2018 was primarily attributable to the proceeds from disposal of financial assets at fair value through profit or loss of approximately HK\$51.7 million.

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### *Net cash generated from/used in financing activities*

Our cash inflow from financing activities during the Track Record Period primarily consisted of bank borrowings and increase in amount due to LGB (HK). Our cash outflow from financing activities primarily consisted of repayment of bank borrowings and interest paid.

During the year ended 31 December 2015, our net cash generated from financing activities was approximately HK\$11.6 million primarily attributable to (i) proceeds from borrowings of approximately HK\$94.0 million drawn down during the year; (ii) the repayments of borrowings of approximately HK\$34.6 million; and (iii) the interest paid on the external borrowings which amounted to approximately HK\$51.0 million.

During the year ended 31 December 2016, our net cash used in financing activities was approximately HK\$14.3 million primarily attributable to (i) the repayments of borrowings of approximately HK\$35.2 million; (ii) the interest paid on the external borrowings which amounted to approximately HK\$42.8 million; and (iii) proceeds from borrowings of approximately HK\$62.9 million drawn down during the year.

During the year ended 31 December 2017, our net cash flows generated from financing activities was approximately HK\$17.0 million primarily attributable to the net effect of (i) the proceeds from borrowings of approximately HK\$47.3 million drawn down during the year; (ii) the increase in amount due to LGB (HK) of approximately HK\$55.4 million; (iii) the repayments of borrowings of approximately HK\$43.6 million; and (iv) the interest paid on the external borrowings which amounted to approximately HK\$42.1 million.

During the four months ended 30 April 2018, our net cash generated from financing activities was approximately HK\$47.9 million primarily attributable to (i) cash inflow from changes in amounts due from LGB (HK) of approximately HK\$59.1 million; (ii) proceeds from borrowings of approximately HK\$17.7 million drawn down during the period; (iii) the repayments of borrowings of approximately HK\$14.1 million; (iv) the interest paid on the external borrowings which amounted to approximately HK\$14.9 million; and (v) the increase in amount due to LGB (HK) of approximately HK\$59.1 million.

### **WORKING CAPITAL**

Taking into account the financial resources of our Group, including the cash flow generated from the operating activities during the Track Record Period, our cash and cash equivalents balance of approximately HK\$206.3 million as at 31 August 2018, the existing bank borrowings and banking facilities available to our Group and the estimated net proceeds of the [REDACTED], our Directors are of the opinion, and the Sponsor concurs, that our Group has sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

## FINANCIAL INFORMATION

### NET CURRENT LIABILITIES

The following table sets forth the current assets and current liabilities as at 31 December 2015, 2016 and 2017, 30 April 2018 and 31 August 2018.

	As at 31 December			As at	
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	30 April 2018 HK\$'000	31 August 2018 HK\$'000 (unaudited)
<b>Current assets</b>					
Inventories	440	269	364	370	—
Trade and other receivables	5,548	10,961	36,126	77,116	49,596
Receivable under service concession arrangement	114,686	236,388	251,359	274,401	261,613
Amounts due from fellow subsidiaries	14,969	13,993	17,962	21,041	6,950
Financial assets at fair value through profit or loss	82,181	58,997	66,873	16,926	—
Restricted bank balances	—	—	6,580	6,816	—
Cash and cash equivalents	<u>37,972</u>	<u>80,214</u>	<u>130,141</u>	<u>199,745</u>	<u>206,335</u>
Total current assets	<u>255,796</u>	<u>400,822</u>	<u>509,405</u>	<u>596,415</u>	<u>524,494</u>
<b>Current liabilities</b>					
Trade and other payables	73,544	85,961	134,062	113,637	136,100
Amount due to Taliworks Corporation Berhad	534,482	—	—	—	—
Amount due to LGB (HK)	—	535,161	595,739	602,284	593,561
Amounts due to fellow subsidiaries	4,771	4,467	4,780	—	—
Amounts due to related companies	6	13	146	—	—
Current portion of long-term borrowings	17,479	26,640	48,960	50,750	51,855
Short-term borrowings	<u>16,716</u>	<u>13,974</u>	<u>19,141</u>	<u>5,787</u>	<u>7,468</u>
Total current liabilities	<u>646,998</u>	<u>666,216</u>	<u>802,828</u>	<u>772,458</u>	<u>788,984</u>
Net current liabilities	<u>391,202</u>	<u>265,394</u>	<u>293,423</u>	<u>176,043</u>	<u>264,490</u>

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

As at 31 December 2016, we had net current liabilities of approximately HK\$265.4 million. The key components of our current liabilities as at such date included amount due to LGB (HK), trade and other payables, current portion of long-term borrowings as well as short-term borrowings. The key components of our current assets as at such date included receivable under service concession arrangement, cash and cash equivalents as well as financial assets at fair value through profit or loss.

Our net current liabilities decreased to approximately HK\$265.4 million as at 31 December 2016 from approximately HK\$391.2 million as at 31 December 2015. This was attributable to the increase in current assets consisted primarily of (i) the increase in receivables under service concession arrangement of approximately HK\$121.7 million; and (ii) the increase in cash and cash equivalents by approximately HK\$42.2 million. Such increase in current assets was partially offset by (i) the decrease in financial assets at fair value through profit or loss by approximately HK\$23.2 million; (ii) the increase in trade and other payables by approximately HK\$12.4 million; and (iii) the increase in current portion of long-term borrowings by approximately HK\$9.2 million.

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

Our net current liabilities increased to approximately HK\$293.4 million as at 31 December 2017 from approximately HK\$265.4 million as at 31 December 2016. This was attributable to the increase in current liabilities consisted primarily of (i) the increase in amount due to LGB (HK) of approximately HK\$60.6 million; (ii) the increase in trade and other payables of approximately HK\$48.1 million; and (iii) the increase in current portion of long-term borrowing of approximately HK\$22.3 million. Such increase in current liabilities was partially offset by (i) the increase in cash and cash equivalents of approximately HK\$49.9 million; (ii) the increase in trade and other receivables of approximately HK\$25.2 million; and (iii) the increase in receivables under service concession arrangement of approximately HK\$15.0 million.

We had net current liabilities of approximately HK\$176.0 million and HK\$264.5 million as at 30 April 2018 and 31 August 2018, respectively. The key components of our current liabilities as at such dates included amount due to LGB (HK), trade and other payables, as well as current portion of long-term borrowings. The key components of our current assets as at such date included receivable under service concession arrangement, cash and cash equivalents, trade and other receivables, financial assets at fair value through profit or loss as well as amounts due from fellow subsidiaries.

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As at 31 August 2018, we had net current liabilities of approximately HK\$264.5 million, representing an increase of approximately HK\$88.4 million, as compared to that as at 30 April 2018. This was attributable to the decrease in current assets primarily due to the net effect of (i) the decrease in financial assets at fair value through profit and loss by approximately HK\$16.9 million; and (ii) decrease in trade and other receivable by approximately HK\$27.5 million. Such decrease in current assets was coupled with an increase in current liabilities which was mainly attributable to the increase in trade and other payables of approximately HK\$22.5 million.

As per above-mentioned, the net current liabilities recorded as at 31 August 2018 was mainly attributable to the amount due to LGB (HK) of approximately HK\$593.6 million, being approximately 71.4% of total current liabilities. Upon our capitalisation of such balances, our Group’s current liabilities would improve. The entire balance of the amount due to LGB (HK) has been capitalised before the Latest Practicable Date.

For further details regarding the items affecting our net current liability position during the Track Record Period, please refer to the paragraph headed “Financial Information — Certain selected statements of financial position line items” above.

### **CERTAIN SELECTED STATEMENTS OF FINANCIAL POSITION LINE ITEMS**

#### **Receivable under Concession Arrangement**

We accrue (i) financial asset, being receivable under service concession arrangement; (ii) intangible asset; and (iii) a combination of both, where appropriate, throughout the concession period. A financial asset is recognised to the extent that we have an unconditional right to receive tariff payments based on basic volumes stipulated under the Concession Agreement.

Our receivable under service concession arrangement refer to the outstanding receivable arising from (i) the initial consideration for the acquisition of the concession right and underlying assets of the Wastewater Treatment Plants at the relevant time; (ii) revenue from wastewater treatment construction services; (iii) revenue from wastewater treatment operation services; and (iv) finance income from service concession arrangement.

The receivable under service concession arrangement shall be settled by tariff payments to be received by our Group during the concession period. The portion of the receivables under service concession arrangement due within 12 months from the end of the respective financial years are classified as current assets as at that balance sheet date and the remaining balance are classified as non-current assets.

For details regarding our revenue recognition, please refer to the paragraphs headed “Critical accounting policies, estimates and judgement — Service concession arrangement” in this section.

## FINANCIAL INFORMATION

The following table sets forth our receivables under service concession arrangement as at the end of each year during the Track Record Period:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2018</b>
				<i>HK\$'000</i>
Receivables under service concession arrangement:				
— Non-current	1,111,732	986,953	1,153,512	1,221,986
— Current	<u>114,686</u>	<u>236,388</u>	<u>251,359</u>	<u>274,401</u>
	<u>1,226,418</u>	<u>1,223,341</u>	<u>1,404,871</u>	<u>1,496,387</u>

Our receivable under service concession arrangement classified as (i) current assets were approximately HK\$114.7 million, HK\$236.4 million, HK\$251.4 million and HK\$274.4 million as at 31 December 2015, 2016, 2017 and 30 April 2018, respectively; and (ii) non-current assets were approximately HK\$1,111.7 million, HK\$987.0 million, HK\$1,153.5 million and HK\$1,222.0 million as at 31 December 2015, 2016, 2017 and 30 April 2018, respectively.

Our total receivable under service concession arrangement amounted to approximately HK\$1,226.4 million, HK\$1,223.3 million, HK\$1,404.9 million as at 31 December 2015, 2016 and 2017, respectively, representing a year-on-year decrease of approximately 0.3%, followed by a year-on-year increase of approximately 14.8%. For the year-on-year movement of the receivables under service concession arrangement from 31 December 2015 to 31 December 2016, such was attributable to the tariff payments received by our Group exceeded revenue recognised from (i) our wastewater treatment construction services; (ii) our wastewater treatment operation services; and (iii) finance income from service concession arrangement, during the year ended 31 December 2016. For the year-on-year movement of the receivables under service concession arrangement from 31 December 2016 to 31 December 2017, such was attributable to the total tariff payments received by our Group being less than the revenue recognised from (i) our wastewater treatment construction services; (ii) our wastewater treatment operation services; and (iii) finance income from service concession arrangement, in particular, revenue from our wastewater treatment construction services amounted to approximately HK\$197.2 million for the year ended 31 December 2017, compared to that of approximately HK\$32.6 million for the year ended 31 December 2016.

As at 30 April 2018, our total receivable under service concession arrangement increased to approximately HK\$1,496.4 million from approximately HK\$1,404.9 million as at 31 December 2017, representing an increase of approximately 6.5%. Such increase was attributable to the tariff payments received by our Group exceeded revenue recognised from (i) our wastewater treatment construction services; (ii) our wastewater treatment operation services; and (iii) finance income from service concession arrangement, during the relevant period.

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Out of the balance of approximately HK\$1,496.4 million receivable under service concession arrangement outstanding as at 30 April 2018, approximately RMB82.6 million (equivalent to approximately HK\$103.3 million)\* or 5.5% has been settled as at the Latest Practicable Date.

### Intangible assets

Our intangible assets primarily represent intangible asset recognised under the service concession arrangement, details of which are set out under “Financial Information — Critical accounting policies, estimates and judgement”. The carrying amount of intangible assets amounted to approximately HK\$51.2 million, HK\$47.7 million, HK\$59.5 million and HK\$63.9 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. The decrease of the intangible assets balance, being approximately HK\$3.5 million, from 31 December 2015 to 31 December 2016 was mainly attributable to currency translation differences of approximately HK\$3.2 million. The increase of the intangible assets balance, being approximately HK\$11.8 million, from 31 December 2016 to 31 December 2017 was mainly attributable to additions of approximately HK\$10.2 million and currency translation differences of approximately HK\$3.6 million. The increase of the intangible assets balance, being HK\$4.4 million, from 31 December 2017 to 30 April 2018 was mainly attributable to (i) the additions of approximately HK\$3.2 million in relation to services concession right; and (ii) currency translation difference of approximately HK\$2.1 million.

### Cash and bank balances

The following table sets forth cash and bank balances at the end of each reporting period during the Track Record Period:

	As at 31 December			As at
	2015	2016	2017	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current				
Restricted bank balances	4,776	4,472	4,785	4,957
Current				
Restricted bank balances	—	—	6,580	6,816
Cash and cash equivalents	<u>37,972</u>	<u>80,214</u>	<u>130,141</u>	<u>199,745</u>
<b>Total cash and bank balances</b>	<u><u>42,748</u></u>	<u><u>84,686</u></u>	<u><u>141,506</u></u>	<u><u>211,518</u></u>

The cash and bank balances were denominated in RMB and US dollars and Singapore dollars. The cash and cash equivalents movement during the Track Record Period were mainly attributable to the net effect of the cash flow from operating activities and cash flow used in investing activities. For further details cash and cash equivalent movement during the Track Record Period, please refer to the paragraph headed “Liquidity and capital resources — Cash flow analysis” in this section above.

\* For the illustration purpose, the exchange rate between the RMB and HK\$ is based on 30 April 2018.

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### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss amounted to approximately HK\$82.2 million, HK\$59.0 million, HK\$66.9 million and HK\$16.9 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively, which were unlisted debt investments denominated in RMB. Such unlisted debt investments mainly represented principal protected investments with PRC based financial institutions. The balances carry an expected return of approximately 2.1% to 3.6% per annum and have no fixed maturity, except for the amount of approximately HK\$35.9 million as of 31 December 2017 which has expected annual return of approximately 1.0% to 3.7% and has matured during the four months ended 30 April 2018. Changes in fair values of financial assets at fair value through profit or loss were recorded in “other gains/(losses), net” in the combined statements of profit or loss.

We have a prudent treasury policy to manage our investment in financial products. We only invest in low risk financial instruments from reputable commercial banks or financial institutions. Our risk control measures include (i) selection of reputable commercial banks or financial institutions; (ii) selection of financial products with a focus on principal protected feature; and (iii) stringent internal control procedures, such as tiered reporting system and periodic audits. All investment plans are subject to review by general manager or deputy general manager and approval from our chief executive officer. Please also refer to the paragraph headed “Business — Risk management” for further details of our Group’s treasury policy.

### Other non-current assets

Other non-current assets amounted to approximately HK\$46.1 million, HK\$43.1 million, HK\$46.1 million as at 31 December 2015, 2016, 2017, respectively, of which comprised primarily of the cost incurred for the construction of a wastewater treatment plant of TECO’s subsidiary that has ceased to be viable, such amount is recoverable from government after its transfer to government. The year-on-year movement of the construction in progress balance during the Track Record Period was mainly attributable to currency translation differences. As at 30 April 2018, other non-current assets amounted to nil.

### Trade and other receivables

Trade and other receivables primarily include (i) trade receivables; (ii) prepayment for construction services; (iii) other receivables; and (iv) prepayments. Trade and other receivables amounted to approximately HK\$5.5 million, HK\$11.0 million, HK\$36.1 million and HK\$77.1 million as at 31 December 2015, 2016, 2017 and 30 April 2018, representing an increase of approximately HK\$5.5 million, HK\$25.1 million and HK\$41.0 million. As at 30 April 2018, trade and other receivables mainly consisted of (i) trade receivables of approximately HK\$57.0 million; and (ii) other receivables of approximately HK\$5.4 million.

## FINANCIAL INFORMATION

In general, our Group usually grants credit periods of 5–20 days to our customers. Aging analysis of gross trade receivables at the respective reporting dates during the Track Record Period, based on the invoice dates are as follows:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2018</b>
0–30 days	816	504	17,147	23,619
31–60 days	—	392	19	24,582
61–90 days	—	5	—	8,791
Over 90 days	—	<u>1</u>	<u>2</u>	<u>2</u>
	<u>816</u>	<u>902</u>	<u>17,168</u>	<u>56,994</u>

The following tables sets forth our trade receivable turnover days for the periods indicated:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
				<b>2018</b>
Trade receivable turnover days				
<i>(Note)</i>	<u>2 days</u>	<u>2 days</u>	<u>9 days</u>	<u>32 days</u>

*Note:* Calculated as the average of the opening and closing balance of trade receivables for the relevant year divided by revenue for the relevant year and multiplied by 365 days for each of the year ended 31 December 2015, 2016 and 2017 and 119 days for the four months ended 30 April 2018.

Trade receivables primarily represent outstanding invoices billed to Yinchuan Construction Bureau for wastewater treatment services and our recycle water customers but not yet settled as at the relevant time. When we issue our bill to Yinchuan Construction Bureau each month, the amount billed will be deducted from the receivable under service concession arrangement and the uncollected portion will be recognised as trade receivables, which will be settled when the cash payment is received from the relevant government authority subsequently. During the Track Record Period, the relevant government authority and/or other customers made periodic payments to our Group in advance for the settlement of our wastewater treatment services or recycle water supply operation services, where relevant, from time to time, which amounted to approximately HK\$3.6 million, HK\$20.2 million, HK\$12,000 and nil as at 31 December 2015, 2016, 2017 and 30 April 2018, respectively. Hence, the aforesaid factors have affected our receivable turnover days during the Track Record Period.

As at 31 December 2015 and 2016, our trade receivable turnover days remained relatively stable at approximately two days, respectively. Our trade receivables turnover days increased from approximately two days as at 31 December 2016 to approximately 9 days as at 31 December 2017, primarily attributable to the factors as mentioned above. As at 30 April 2018, our trade receivable turnover days increased from approximately 9 days to 32 days. Such increase was mainly attributable to the extended payment cycles of our certain customers during the four months ended 30 April 2018.

## FINANCIAL INFORMATION

No impairment allowance of trade receivables is considered necessary because amounts past due but not impaired were related to a number of recycle water customers for whom there is no significant financial difficulty and, based on the past experience of our management, such amounts can be recovered. As at Latest Practicable Date, approximately RMB46.0 million (equivalent to approximately HK\$57.0 million)\* or 100% of our trade receivables as at 30 April 2018 had been settled.

### Amounts due from fellow subsidiaries

The following table sets forth our amounts due from fellow subsidiaries at the end of each reporting period during the Track Record Period:

	As at 31 December			As at
	2015	2016	2017	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Amounts due from fellow subsidiaries	14,969	13,993	17,962	21,041

As at 31 December 2015, 2016 and 2017 and 30 April 2018, the amounts due from fellow subsidiaries, controlled by our Controlling Shareholder, were unsecured, interest-free and repayable on demand. For details on transactions between related parties, please refer to the paragraph headed “Financial Information — Related party transactions” below. Our Group shall collect all the outstanding amounts due from fellow subsidiaries prior to [REDACTED].

### Amounts due to related parties

The following table sets forth amounts due to related parties at the end of each reporting period during the Track Record Period:

	As at 31 December			As at
	2015	2016	2017	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Amount due to Taliworks Corporation Berhad	534,482	—	—	—
Amount due to LGB (HK)	—	535,161	595,739	602,284
Amounts due to fellow subsidiaries	4,771	4,467	4,780	—
Amounts due to related companies	6	13	146	—

The amounts due to related parties were unsecured, interest-free and repayable on demand, save for an amount of US\$1.6 million which bears interest at a rate of 6.5% per annum due to Taliworks Corporation Berhad as at 31 December 2015, and was subsequently novated to LGB (HK) during the year ended 31 December 2016, and remained outstanding as at 31 December 2016 and 2017 and 30 April 2018, respectively. The fluctuation of the amounts due to related parties during the Track Record

\* For the illustration purpose, the exchange rate between the RMB and HK\$ is based on 30 April 2018.

## FINANCIAL INFORMATION

Period was primarily due to exchange differences and accrued interests from the aforementioned balance of US\$1.6 million. The outstanding amounts due to related parties has been capitalised before the Latest Practicable Date. For details on transactions between related parties, please refer to the paragraph headed “Financial Information — Related party transactions” below.

### Trade and other payables

#### *Trade payables*

The following table sets forth our trade payables at the end of each reporting period during the Track Record Period:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2018</b>
				<i>HK\$'000</i>
Trade payables	30,763	31,750	89,838	84,678

Trade payables primarily relate to utilities and chemicals costs, as well as subcontractor costs in relation to the upgrading and expansion of our Wastewater Treatment Plants as well as outstanding construction payments relating to the upgrading and expansion works of our Wastewater Treatment Plants. The trade payables are non-interest bearing and are typically settled on terms of 30 days. The increase in trade payables as at the year ended 31 December 2017 as compared to as at the year ended 31 December 2016 was primarily due to the increase in the amounts invoiced by our subcontractors and suppliers in relation to the upgrading and expansion works during the year ended 31 December 2017. The decrease in trade payables as at 30 April 2018 as compared to as at the year ended 31 December 2017 was primarily due to the fact that our upgrading and expansion works in Plant 2 and Plant 4 had entered into the course of completion. Approximately RMB29.2 million (equivalent to approximately HK\$36.2 million)\* of our trade payables as at 30 April 2018 had been settled as at Latest Practicable Date.

Our Directors confirm that our Group did not have any material default in payment of trade payables during the Track Record Period.

\* For the illustration purpose, the exchange rate between the RMB and HK\$ is based on 30 April 2018.

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The table below sets forth, as of the dates indicated, the aging analysis of our trade payables based on invoice date:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2018</b>
1–30 days	13,449	4,422	26,364	26,198
31–60 days	1,671	4,090	39,257	1,794
61–90 days	1,637	1,806	2,226	—
Over 90 days	<u>14,006</u>	<u>21,432</u>	<u>21,991</u>	<u>56,686</u>
	<u>30,763</u>	<u>31,750</u>	<u>89,838</u>	<u>84,678</u>

The following table sets forth our trade payable turnover days for the periods indicated:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
				<b>2018</b>
Trade payable turnover days ( <i>Note</i> )	<u>60 days</u>	<u>120 days</u>	<u>95 days</u>	<u>129 days</u>

*Note:* Calculated as the average of the opening and closing balance of trade payables for the relevant year divided by cost of sales for the relevant year and multiplied by 365 days for each of the year ended 31 December 2015, 2016 and 2017 and 119 days for the four months ended 30 April 2018.

Our cost of sales incurred during the Track Record Period may fluctuate subject to the scale of upgrading and expansion works undertaken as well as the direct costs incurred related to our wastewater treatment operations at a given time thereby affecting our trade payables balance as at the respective year end and the trade payables turnover days during the Track Record Period.

The increase in our trade payable turnovers day were primarily attributable to (i) various upgrading and expansion works were completed towards the end of the year and the corresponding costs remained unsettled as at the respectively year end; and (ii) the increase in costs of our wastewater treatment operation services, such as utilities and chemical costs, due to the increase in volume of wastewater treated by our Wastewater Treatment Plants and the improvement in water discharge standard.

## FINANCIAL INFORMATION

### *Other payables and accruals*

The following table sets forth our other payables at the end of each reporting period during the Track Record Period:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>30 April</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2018</b>
Advances from customers	3,603	20,182	12	—
Retention payables	6,733	6,443	8,608	3,241
Notes payables	—	—	6,580	6,816
Other payables and accruals	<u>32,445</u>	<u>27,586</u>	<u>29,024</u>	<u>18,902</u>
Other payables	<u><u>42,781</u></u>	<u><u>54,211</u></u>	<u><u>44,224</u></u>	<u><u>28,959</u></u>

As at 30 April 2018, other payables primarily included other payables and accruals, retention payable and notes payables.

### **INDEBTEDNESS**

	<b>As at 31 December</b>			<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>31 August</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2018</b>
Term loan ( <i>Note</i> )	734,840	714,553	768,457	755,251
Amount due to Taliworks Corporation Berhad	534,482	—	—	—
Amount due to LGB Group (HK) Limited	—	535,161	595,739	593,561
Amount due to fellow subsidiary	<u>4,771</u>	<u>4,467</u>	<u>4,780</u>	<u>—</u>
	<u><u>1,274,093</u></u>	<u><u>1,254,181</u></u>	<u><u>1,368,976</u></u>	<u><u>1,348,812</u></u>

*Notes:* The amounts were secured by (i) contractual rights to receive revenue generated by our Group; and (ii) the land use right in relation to parcel of land of which the Wastewater Treatment Plants are situated.

As at 31 December 2015, 2016 and 2017 and 31 August 2018, our Group had total indebtedness of approximately HK\$1,274.1 million, HK\$1,254.2 million, HK\$1,369.0 million and HK\$1,348.8 million. The outstanding external indebtedness as at 31 August 2018 were primarily denominated in RMB. As at 31 August 2018, our Group had unutilised banking facilities of approximately HK\$197.6 million.

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As at 31 August 2018, being the latest practicable date of our indebtedness statement, except as disclosed in the table above, our Group did not have any outstanding debt securities, bank overdrafts, borrowings, indebtedness, mortgages debentures, hire purchase commitments, guarantees or other material contingent liabilities. The amount due to LGB (HK) as at 31 August 2018 amounted to approximately HK\$593.6 million. The entire balance of the amount due to LGB (HK) has been capitalised before the Latest Practicable Date. For details of the fluctuation of our indebtedness, please refer to the paragraph headed “Financial Information — Certain selected statements of financial position line items”.

Save as disclosed, there is no material adverse change in our indebtedness up to the Latest Practicable Date.

Our Directors confirm that there was no material delay or default in repayment of our indebtedness, nor breach of any relevant finance covenant on our part, during the Track Record Period and up to 31 August 2018. There was no material covenant relating to our Group’s outstanding debts.

### CAPITAL EXPENDITURE

Our major construction costs consisted primarily of property, plant and equipment during the Track Record Period. We incurred construction costs of approximately HK\$15,000, HK\$0.2 million, HK\$0.7 million and HK\$66,000 during the years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

### CONTRACTUAL OBLIGATIONS

#### Capital commitments

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our Group has the following capital commitments in respect of upgrading and expansion works of our Wastewater Treatment Plants under development:

	<b>As at 31 December</b>			<b>As at 30 April</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Contracted but not provided for	76,047	18,229	200,530	193,992

As at 30 April 2018, our capital commitments of approximately HK\$194.0 million is related to the upgrading and expansion works of Yinchuan Wastewater Treatment Plant 1, Phase II of Yinchuan Wastewater Treatment Plant 2 and the expansion of Plant 4 as disclosed in “Summary — Recent development after the Track Record Period”.

## FINANCIAL INFORMATION

### Lease commitments

Our Group had the following future aggregate minimum lease payments under non-cancellable operating leases as at 31 December 2015, 2016 and 2017 and 30 April 2018:

	As at 31 December			As at
	2015	2016	2017	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2018</i> <i>HK\$'000</i>
Within one year	762	837	717	1,209
Over one year	—	122	30	317
	<u>762</u>	<u>959</u>	<u>747</u>	<u>1,526</u>

### CONTINGENT LIABILITIES

As at 30 April 2018 and 31 August 2018, our Group had no significant contingent liabilities or outstanding litigation.

### KEY FINANCIAL RATIOS

	<i>Note</i>	As at/for the year ended 31 December			As at/for
		2015	2016	2017	four months ended 30 April 2018
Current ratio	1	0.4	0.6	0.6	0.8
Quick ratio	2	0.4	0.6	0.6	0.8
Gearing ratio	3	94.4%	93.6%	87.2%	81.7%
Return on equity	4	62.0%	56.7%	32.5%	7.2%
Return on total assets	5	3.1%	3.1%	3.3%	1.0%
Interest coverage	6	2.2	2.5	2.9	3.0
Net profit margin	7	18.0%	22.0%	16.1%	14.0%

*Notes:*

- Current ratio is calculated by dividing total current assets with total current liabilities as at the end of the relevant year.
- Quick ratio is calculated by dividing total current assets minus inventories with the total current liabilities as at the end of the relevant year.
- Gearing ratio is calculated by net debt divided by total capital at the end of the relevant year. Net debt is calculated as total borrowings plus amounts due to related companies less cash and cash equivalents at the end of the relevant year. Total capital is calculated as total equity plus net debt.
- Return on equity is calculated by dividing profit for the year for the relevant year with total equity as at the end of the respective year multiplied by 100%.

## FINANCIAL INFORMATION

5. Return on total assets is calculated by dividing profit for the year for the relevant year with total assets as at the end of the respective year multiplied by 100%.
6. Interest coverage is calculated by dividing profit before interest and tax with interest expenses for the relevant year.
7. Net profit margin is calculated by dividing profit for the year with revenue for the relevant year multiplied by 100%.

### Current ratio and quick ratio

As at 31 December 2015, 2016 and 2017 and 30 April 2018, our current and quick ratios remained relatively stable at approximately 0.4, 0.6, 0.6 and 0.8, respectively. Given the nature of our business, we kept a low level of inventories during the Track Record Period. As such, our quick ratio was similar to that of our current ratio as at the respective year end date.

### Gearing ratio

Our Group recorded gearing ratio of approximately 94.4%, 93.6%, 87.2% and 81.7% as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. Our Group’s net debt as at 31 December 2015, 2016, 2017 and 30 April 2018 mainly consisted of non-current borrowings and amounts due to related parties. Upon our capitalisation of such balances, our Group’s gearing ratio would improve. The entire balance of the amount due to LGB (HK) has been capitalised before the Latest Practicable Date. For further details on our Group’s indebtedness positions, please refer to paragraph headed “Financial information — Indebtedness”.

### Return on equity (%)

Our Group recorded return on equity of approximately 62.0%, 56.7%, 32.5% and 7.2% for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively.

The return on equity of our Group decreased from approximately 62.0% for the year ended 31 December 2015 to approximately 56.7% for the year ended 31 December 2016 which was primarily attributable to the increase in total equity for the year ended 31 December 2016 of approximately HK\$7.6 million, which was attributable to the factors as discussed under the paragraph headed “Financial information — Year ended 31 December 2016 compared with year ended 31 December 2015” in this section.

Subsequently, the return on equity of our Group decreased from approximately 56.7% for the year ended 31 December 2016 to approximately 32.5% for the year ended 31 December 2017 which was mainly due to the year-on-year increase in total equity of approximately 125.9%, being at a rate greater than the increase to the profit for the year of approximately 29.3%, as a result of reasons and factors as set out under paragraphs headed “Financial information — Period on period comparison of results of operations” and “Financial information — Certain selected statements of financial position line items”.

As at 30 April 2018, our Group recorded return on equity of approximately 7.2%. If the [REDACTED] expenses of approximately HK\$8.4 million were excluded, the return on equity of our Group would have been approximately 10.3% for the four months ended 30 April 2018.

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### Return on total assets (%)

Our Group recorded return on assets of approximately 3.1%, 3.1%, 3.3% and 1.0% for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. The return on total assets has remained stable during the Track Record Period. The profit for the year and total asset balances for each of the year ended 31 December 2015 and 2016 were at a similar level. The slight increase in return on total assets for the year ended 31 December 2017 was mainly attributable to the increase in both profit after tax and total assets. If the [REDACTED] expenses of approximately HK\$8.4 million were excluded, the return on total assets of our Group would be approximately 1.5% for the four months ended 30 April 2018. For further details, please refer to paragraphs headed “Financial information — Period to period comparison of results of operations” and “Financial information — Certain selected statements of financial position line items”.

### Interest coverage

The interest coverage of our Group were approximately 2.2, 2.5, 2.9 and 3.0 for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively, which has remained stable over the Track Record Period. The finance costs of our Group comprised of interest on (i) borrowings; and (ii) certain amounts due to Taliworks Corporation Berhad/LGB (HK) during the Track Record Period. For further details on our borrowings and amounts due to Taliworks Corporation Berhad/LGB (HK), please refer to information as set out under paragraph headed “Financial information — Indebtedness” and “Financial information — Amounts due to related parties”, respectively.

### Net profit margin

Our Group recorded net profit margin of approximately 18.0%, 22.0%, 16.1% and 14.0% for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. Please refer to section headed “Financial information — Period to period comparison of result of operations” for a discussion of the factors affecting our net profit margin during the Track Record Period.

### [REDACTED] EXPENSES

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

## FINANCIAL INFORMATION

### RELATED PARTY TRANSACTIONS

Please refer to the section headed “Related party transactions” under Note 30 of Accountant’s Report set out in Appendix I to this document for details of our related party transactions, including balances with related parties, during the Track Record Period.

Save for amounts due to/from related parties, our Directors are of the view that during the Track Record Period, the related party transactions were conducted based on normal commercial terms and were no less favourable to us than terms available to or from Independent Third Parties.

Amounts due to/from fellow subsidiaries are measured at amortised cost, unsecured, interest free, and have no fixed terms of repayment, save for an amount due to (i) Taliworks Corporation Berhad as at 31 December 2015; and (ii) LGB (HK) as at 31 December 2016 and 2017 and 30 April 2018, of approximately US\$1.6 million, respectively, which bear interest at a rate of 6.5% per annum. Our Group shall settle all outstanding amounts due to/from related parties prior to [REDACTED].

Our Group derived approximately HK\$1.1 million, HK\$1.1 million, HK\$1.1 million and HK\$0.8 million of management fees from related parties for the year ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018, respectively. As the relevant agreements have either ended or been terminated on or before 30 April 2018, no additional management fees will be derived from related parties thereafter.

Our Group incurred approximately HK\$0.6 million and HK\$0.4 million of consultancy fee to related party for the year ended 31 December 2015 and 2016, respectively. No consultancy fee to related party was incurred by our Group during the year ended 31 December 2017 and four months ended 30 April 2018.

Having considered that there was no material impact on the combined statements of comprehensive income arising from the related party transaction as described above during the Track Record Period, save as disclosed above, our Directors are of the view that the aforesaid related party transactions did not distort our financial results during the Track Record Period or cause our Track Record Period results to be unreflective of our future performance.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISK

We are exposed to various types of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and risk relating to fair value measurements during the normal course of our business. Our overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance.

#### Foreign currency risk

Our Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. Foreign currency risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group’s foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies, including the United States dollars (the “**Non-functional Currency**”).

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Fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currency in which our group entities conduct business may affect our Group’s financial position and results of operations. Our Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position. For illustration purposes only, if Non-functional Currency denominated monetary items adjusted their translation against the respective functional currencies of group entities as at the respective year-ends by 1% with all other variables held constant, our Group’s net profit for the years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018 would decrease/increase by approximately HK\$4.7 million, HK\$4.6 million, HK\$5.2 million and HK\$6.1 million, respectively.

### Interest rate risk

Our interest rate risk primarily arises from our borrowings. Borrowings obtained at variable rates are expose to cash flow interest rate risk. We have not entered into any interest rate swaps to hedge our exposure to interest risk.

If the interest rates had been 100 basis points higher/lower with all other variables held constant, our profit after tax for each of the years ended 31 December 2015, 2016 and 2017 and four months ended 30 April 2018 would have been approximately HK\$5.2 million, HK\$4.7 million, HK\$4.7 million and HK\$1.4 million lower/higher, respectively.

### Financial risk management

In addition to the foreign currency risk and interest rate risk set out above, our Group is also exposed to credit risk, liquidity risk and risk relating to fair value measurements during the course of our business. Further details on our financial risk management policies and practices are set out under the paragraph headed “Notes to the financial information — Financial risk management” in Appendix I to this document.

## OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

As at the Latest Practicable Date, save as disclosed, we have not, nor do we expect, to enter into, any off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners’ equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an uncombined entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

## DIVIDEND DISTRIBUTION PRIOR TO THE [REDACTED]

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

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### DIVIDEND

Subject to the Companies Law, we may declare dividends in any currency through a general shareholders’ meeting, but no dividend shall be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profits, realised or unrealised, or from any reserves set aside from profits which our Directors determine are no longer needed. With the sanction of an ordinary resolution passed by our shareholders, dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

We currently do not have a formal dividend policy. The declaration of dividends is subject to our discretion, and the amounts of dividends actually declared and paid will also depend upon our operating results, financial condition, capital requirements, interests of our shareholders and other factors which we may deem relevant.

Our future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC. PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in certain aspects from the generally accepted accounting principles in other jurisdictions including HKFRS. PRC law also requires a foreign-invested enterprise to transfer at least 10% of its net profit (after offsetting losses in the prior year) to a statutory reserve until the reserve balance reaches 50% of the registered capital of the enterprise. The transfer to its reserve must be made before distribution of dividends to its equity holders. Distributions from our PRC operating subsidiaries may also be restricted if they incur debt or losses due to PRC law restricting payments of dividends to us or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our PRC operating subsidiaries may enter into in future.

For more details regarding the restrictions on the payment of dividends by our PRC subsidiaries and taxes payable on dividends, please refer to the sections headed “Risk Factors — Risks relating to business operations in the PRC — Fluctuations in the value of RMB may materially and adversely affect the value of dividends and other distributions by our PRC subsidiaries, our business and your investment” and “Risk Factors — Risks relating to the [REDACTED] — We may be unable to pay any dividend on the Shares” in this document.

### DISTRIBUTABLE RESERVE

Our Company was incorporated in the Cayman Islands on 17 April 2018 and has not carried on any business since the date of our incorporation. As such, as at 30 April 2018, we had no distributable reserve available for distribution to our shareholders.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted consolidated net tangible assets was prepared for illustrative purposes only and may not give a true picture of our financial position due to its hypothetical nature. For further details, please refer to the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this document.

## **FINANCIAL INFORMATION**

### **MATERIAL ADVERSE CHANGES**

Our Directors confirm that, up to the date of this document, there has been no material adverse change, other than the impact of the [REDACTED] expenses, in our financial, operational or trading position since 30 April 2018, being the end of the period reported on in the Accountant's Report in Appendix I to this document.

### **DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.