

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Our Group’s main objective is to strengthen our market position in the wastewater treatment industry in the PRC and continue to strengthen our competitive strengths. To achieve our goals, we intend to utilise the following key business strategies:

- Continue to complete the contemplated upgrading and expansion works for our existing facilities;
- Strengthen our market position in the PRC through undertaking new wastewater treatment projects; and
- Continue to enhance the quality control system by establishing a new wastewater treatment control system.

Please refer to “Business — Business Strategies” in this document for details of our business strategies.

USE OF PROCEEDS

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

- To continue to complete the contemplated upgrading and expansion works of our existing facilities, approximately HK\$[REDACTED] or [REDACTED]% of the net proceeds will be applied towards this purpose. Such remaining contemplated upgrading and expansion works are expected to be completed by the end of 2020. For details of our contemplated upgrading and expansion works and the status as at the Latest Practicable Date, please see “Business — Our existing wastewater treatment facilities” in this document;
- Approximately HK\$[REDACTED] or [REDACTED]% of the net proceeds will be applied towards funding our identification and evaluation of new wastewater treatment projects in Yinchuan and/or in other regions in the PRC should the opportunities arise, which would mainly involve engaging an Independent Third Party consultancy firm to perform feasibility studies on the potential project(s), as an initial step to facilitate us to implement our business strategy of undertaking the new wastewater treatment projects which are considered to be suitable and meeting our own set of criteria after such identification and evaluation. Our Directors intend to apply this portion of the net proceeds within three years from the date of the [REDACTED]. As at the Latest Practicable Date, we had not yet identified any new projects for evaluation;

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- Approximately HK\$[REDACTED] or [REDACTED]% of the net proceeds will be applied for establishing and future upgrading of our own centralised monitoring system to enable our technical team and management to gain access to real-time data on the wastewater quality and wastewater treatment processes starting from the inflow to the outflow and provide timely appoint to resolve technical issues and oversee and manage our facilities without geographical restriction. Our Directors intend to apply this portion of the net proceeds by the end of 2019; and
- Approximately HK\$[REDACTED] or [REDACTED]% of the net proceeds is expected to be used as general working capital and for general corporate purposes.

To the extent that the net proceeds from the [REDACTED] are not immediately required for the above purposes and to the extent permitted by applicable laws and regulations, if we are unable to effect any part of our future plans as intended, it is the present intention of our Directors that such net proceeds be placed in short-term interest bearing deposit accounts held with authorised financial institutions in Hong Kong and/or the PRC. In the event that we would require additional financing apart from the net proceeds from the issue of the [REDACTED] for our future plans, the shortfall will be financed by our internal resources and/or bank financing.

If the [REDACTED] is set at the high-end or low-end of the proposed [REDACTED] range, the net proceeds of the [REDACTED] will increase or decrease by approximately HK\$[REDACTED] million. We will adjust the allocation of the net proceeds for the above-mentioned purposes on a pro rata basis.

We will issue an appropriate announcement if there is any material change in the aforementioned use of proceeds.

REASONS FOR THE [REDACTED]

The primary reasons for the [REDACTED] are to allow us to raise funds for us (i) to continue to carry out the contemplated upgrading and expansion works of our existing facilities so as to aim for higher tariffs and basic volumes and hence to receive higher wastewater treatment service fees and to maintain and strengthen our competitiveness and market share in Yinchuan and Ningxia by continuing to raise our discharge standards and treatment capacities; (ii) to identify and evaluate suitable new projects in the PRC for the purpose of growing our business by operating additional wastewater treatment facilities; and (iii) to upgrade our wastewater treatment real-time monitoring system to facilitate our management to gain real-time comprehensive data in our wastewater treatment processes and remote access to such data so that our operations can be managed more effectively without geographical restrictions and such upgrading of our centralised monitoring system is important for enabling us to comply with the increasingly stringent wastewater treatment standards of the relevant governmental authorities and thereby maintaining and strengthening our reputation and market position.

As disclosed in “Business — Project Financing” in this document, as at 30 April 2018, we estimated that the construction cost, required to complete the remaining contemplated upgrading and expansion works (inclusive of the estimated construction cost for the upgrading to Quasi Surface Water Standard Class IV (準四類水標準) for the additional capacity of 100,000 cubic meters to be built at Plant 4) is approximately RMB468.0 million (equivalent to approximately HK\$585.0 million), which is expected to comprise of (i) purchase of equipment and installation cost of approximately RMB231.6 million (equivalent to approximately HK\$289.5 million); (ii) costs for civil and structural works of

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approximately RMB158.3 million (equivalent to approximately HK\$197.9 million); (iii) design and exploration cost of approximately RMB35.2 million (equivalent to approximately HK\$44.0 million); and (iv) other ancillary costs of approximately RMB42.9 million (equivalent to approximately HK\$53.6 million). The above-mentioned estimated construction cost is expected to be satisfied as to (i) approximately 65% by bank borrowings (including unutilised bank facilities and additional bank facilities to be obtained by our Group in future); and (ii) the remaining approximately 35% by a combination of internally generated funds and approximately [REDACTED]% of the net [REDACTED] from the [REDACTED], being approximately HK\$[REDACTED]. Out of the said approximately HK\$585.0 million estimated construction costs required for completing the remaining contemplated upgrading and expansion works, approximately HK\$108.2 million has incurred between 1 May 2018 to 30 August 2018, the balance of approximately HK\$476.8 million is expected to be incurred from September 2018 onward.

As at 30 April 2018, our Group had cash and cash equivalents of approximately HK\$199.7 million and unutilised banking facilities of approximately HK\$250.0 million. Such unutilised banking facilities consisted of the four project loan facilities and a working capital loan facility. The usage of each of our banking facilities are restricted to that as stipulated in the relevant loan agreements such that each project loan is restricted to financing the construction costs of the contemplated upgrading the expansion works for subject Wastewater Treatment Plant only, and the funds that can be drawdown from the working capital loan facility can only be used for the daily operations of the Wastewater Treatment Plants. Accordingly, after deducting the unutilised amounts under the project loan for Plant 3 (since all its contemplated upgrading and expansion works had been completed) and the working capital loan, the unutilised banking facilities under the project loans that can be applied to fund the contemplated upgrading and expansion works was approximately HK\$224.6 million as at 30 April 2018. Based on the above, there was a shortfall of approximately HK\$160.7 million of estimated construction cost needed for completing the contemplated upgrading and expansion works and are not covered by our Group's existing banking facilities and cash on hand as at 30 April 2018.

As at 31 August 2018, the total amount of outstanding bank loan was approximately RMB650.9 million (equivalent to approximately HK\$747.8 million). Besides the project loans and working capital loan, out of the total consideration of RMB810.0 million (equivalent to approximately HK\$1,012.5 million) for acquiring the concession right and taking over the underlying assets of the facilities under the TOT Transfer Agreement, RMB526.5 million (equivalent to approximately HK\$641.0 million) was funded by bank loan and our Group is in the course of repaying such outstanding bank loan in accordance with the terms of the relevant bank facility agreement that has a fixed term of 16 years from 2011.

Aside from the fact that the construction costs for the upgrading and expansion works is only an estimate, and may be revised upwards (due to variation orders and other unforeseen increases), the estimated construction costs necessary for completing the upgrading and expansion works is significantly more than our Group's cash on hand and the unutilised portion of our Group's project loans based on the information as at 30 April 2018 as mentioned above.

Our Directors believe that, in view of our Group's capital needs and the need to maintain a sufficient level of cash and cash equivalent and a prudent gearing level, and to prepare for the substantial initial capital requirement in acquiring or constructing new wastewater treatment projects in future, in the absence of the net proceeds from the [REDACTED], the ability of our Group to implement

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our business strategy of pursuing new wastewater treatment projects would be limited. Our Directors also believe that the net proceeds from the [REDACTED] would enhance our Group's position during negotiations for additional bank loans to fund future projects and/or the contemplated upgrading and expansion works.

Our Directors also believe that the [REDACTED] would bring the following commercial benefits to our Group:

1. The [REDACTED] can provide our Group with a more diversified and broader shareholder base to include public investors, thus provide our Group with additional financing alternatives and a platform for us to raise funds from the capital market for our long-term development needs and future business expansion.
2. Our Group has the need to obtain further debt financing from banks to finance the remaining contemplated upgrading and expansion works, with a significant extent of the same not yet covered by existing unutilised banking facilities. Also in view of the substantial capital requirement in acquiring new wastewater treatment projects in future, our Directors believe that the [REDACTED] status, bringing about higher transparency, stricter regulatory supervision and a solid financing platform, would enhance our Group's ability to obtain further banking facilities with terms acceptable to us to finance or operations and development, completing the contemplated upgrading and expansion works and future wastewater treatment projects.
3. According to the CIC Report, the main area of competition among the existing industry players in the wastewater treatment industry is more focused on the bidding for new projects and reputation is one of the key factors to competitiveness and entry barrier for companies which are seeking to participate in future wastewater treatment projects. Our Directors believe that our Group's image to the public and reputation could be further enhanced after the [REDACTED] and thereby increase our Group's competitiveness when bidding for new projects in future.

Factors taken into account by our Directors in choosing equity financing through the [REDACTED]

In choosing equity financing through the [REDACTED] over debt financing for raising such amount of fund comparable to that of the gross proceeds ranging from approximately [REDACTED] to [REDACTED] under the current plan, our Directors have taken into account (i) during the Track Record Period, our Group had incurred significant amounts of finance cost of approximately HK\$50.8 million, HK\$42.8 million and HK\$42.0 million for each of the three years ended 31 December 2017, each of which is notably higher than that of the estimated expenses for the [REDACTED] of approximately HK\$[REDACTED]; (ii) the fact that the estimated [REDACTED] expense is not disproportionate for raising the gross proceed ranging from approximately [REDACTED] to [REDACTED] under the current plan; (iii) the finance costs attributable to debt financing are recurring in nature until subject debt financing is repaid in full, while the [REDACTED] expenses are non-recurring and one-off in nature; (iv) the fact that equity financing does not divert the funds generated from our Group's operation for repayment of the net proceeds raised, as opposed to the requirement of regular repayment to the lenders in debt financing; and (v) in addition to the payment of construction costs, our cash outflows from operating activities were primarily used for costs of wastewater treatment operation, including, among others, utility, and chemicals, employee expenses and other operating costs in relation to our Wastewater

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Treatment Plants. Based on the information available to our Directors as at the Latest Practicable Date, without taken into consideration the credit period granted by the respective suppliers, the estimated monthly operating cash outflow as a result of such expenses, save for payment of construction costs, amounts to approximately HK\$10.2 million.

Furthermore, in light of the commercial benefits of the [REDACTED] as mentioned-above, our Directors believe that the [REDACTED] and the [REDACTED] is a suitable fund raising means to provide our Group with a significant amount of readily available funds for its business operation and development and enhance its reputation, financial capability and provide a solid fund raising platform to source funds for its future business expansion.

The [REDACTED] will also expand and diversify our shareholder base and potentially lead to a more liquid market in the trading of our Shares.

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

Subject to various factors, including among others, (i) as advised by JLL, the construction profit margins for the Wastewater Treatment Plants in relation to the upgrading and expansion services under our concession arrangement would be at approximately 10.0%, and the operating profit margins for the Wastewater Treatment Plants in relation to our wastewater treatment operation services would be at approximately 39.0%; (ii) the expected composition of the revenue and cost of sales of our Group for the year ending 31 December 2018; and (iii) the progress of our scheduled upgrading and expansion works, the actual level of cost of sales, including operating costs and construction costs, and general and administrative expenses, to be incurred by our Group for the year ending 31 December 2018, based on the information available as at the Latest Practicable Date and barring unforeseen circumstances, partly attributable to our ongoing and planned upgrading and expansion works, our Directors expect that the gross and net profit margins of our Group (excluding [REDACTED] expenses) for the year ending 31 December 2018 to be in line with the gross and net profit margins range recorded by our Group for the year ended 31 December 2017. Having considered the above, in particular, the gross and net profit margins of our Group (excluding [REDACTED] expenses) for the year ending 31 December 2018 is expected to be in line with our gross and net profit margins range recorded during the Track Record Period and that it is common for our gross and net profit margins to vary year-on-year attributable to the different composition of our revenue and cost of sales for a given year, in particular as a result of the overall portion of revenue attributable to our wastewater treatment construction services and our wastewater treatment operation services respectively, as their respective gross profit margins differ notably, our Directors are of the view that the gross and net profit margins of our Group for the year ending 31 December 2018 will not be materially impacted as a result of our provision of construction services for the upgrading and expansion works.

Based on the information available as at the Latest Practicable Date and barring unforeseen circumstances, our Directors are of the view that the carrying out of the remaining upgrading and expansion works is not expected to result in material disruptions to our Group's operations going forward.