

SUMMARY

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

OUR BUSINESS AND BUSINESS MODEL

Overview

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

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

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

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

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

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

Our TOT project model

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

Project Financing

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

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

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

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

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Supply of recycled water as ancillary business

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

OUR REVENUE

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

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

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

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

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

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

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

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

OUR COMPETITIVE STRENGTHS

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

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

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

OUR STRATEGIES

Our principal business strategies include:

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

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

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HIGHLIGHTS OF RISK FACTORS

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

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

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

CUSTOMERS AND SUPPLIERS

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

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

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

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

NET CURRENT LIABILITIES AS AT 30 APRIL 2018

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

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

OUR CONTROLLING SHAREHOLDERS

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

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SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

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

Selected information from the combined income statements

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

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

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

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

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

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

Notes:

- (1) rounded to the nearest thousand cubic metres
 - (2) Utilisation rate of our wastewater treatment facilities was calculated by dividing the actual volume of wastewater treated by the total designed capacity taking into consideration the expansion in capacity completed from time to time.
 - (3) For Plant 2 and Plant 3, their respective average utilisation rates during the three years ended 31 December 2017 prior to the completion of Phase I of Plant 2 expansion and the expansion works for Plant 3, respectively, were higher than 100%, which was mainly due to the supply of wastewater to Plant 2 and Plant 3 at that time being higher than their respective original designed capacity before the relevant expansion works, while there is an extra buffer in the construction design of each of our facilities intended to be used as a backup capacity to reduce downtime and allowed us to cope with some unpredictable increase in the amount of wastewater supplied to our facilities from time to time beyond 100% of the designed capacity. Upon completion of the Phase I of Plant 2 expansion and the expansion works for Plant 3, their respective average utilisation rates had resumed to below 100%. Thereafter during the four months ended 30 April 2018, due to the higher supply of wastewater to Plant 2 which sometimes exceeded its designed capacity, the average utilisation rate for Plant 2 during such period had gone up to more than 100%. It is expected that the utilisation rate for Plant 2 will resume to below 100% after the completion of its Phase II expansion.
 - (4) 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.
- For Plant 2 and Plant 4, we have been granted an interim tariff of RMB2.0 per cubic meter effective from December 2017 and January 2018 respectively until the approval by our customer of the respective tariff revision for Plant 2 and Plant 4 in relation to the completion of their relevant upgrading and expansion works. For Plant 1, we have been granted an interim tariff of RMB2.0 per cubic meter effective from July 2018 after its upgrading to discharge standard Class 1A entered the testing and commissioning stage.

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Selected information from the combined statements of financial position

	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>
Current assets	255,796	400,822	509,405	596,415
Current liabilities	646,998	666,216	802,828	772,458
Net current liabilities	391,202	265,384	293,423	176,043
Non-current assets	1,214,950	1,083,315	1,265,636	1,292,519
Non-current liabilities	751,058	737,588	790,727	846,657
Net assets	72,690	80,333	181,486	269,819

Selected information from the combined statements of cash flows

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

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

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

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KEY FINANCIAL RATIOS

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

Note:

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

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

RECENT DEVELOPMENT AFTER THE TRACK RECORD PERIOD

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

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

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

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

SUMMARY

[REDACTED] EXPENSES

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

USE OF PROCEEDS AND REASONS FOR THE [REDACTED]

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

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

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

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

SUMMARY

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

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

STATISTICS OF THE [REDACTED]

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

Notes:

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

DIVIDEND

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

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