

RISK FACTORS

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

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

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Group is dependent on our senior management team

We attribute our success to the contributions of our stable management team with diverse backgrounds and substantial experience in the wastewater treatment industry. Our senior management team comprises, among others, Mr. Wong Kok Sun, being our executive Director and chief executive officer, and Mr. Han Ning, being our general manager. Mr. Wong Kok Sun has been overseeing the wastewater treatment operations of our Group since 2012 whereby he has accumulated abundant experience and has led the management and operation of TYW since its early stage of development. Mr. Han Ning joined our Group in 2013 and he has more than 19 years of experience in the wastewater treatment industry. Our continued success is therefore dependent to a large extent on our ability to retain the services of these key management personnel. The loss of their services without a timely and suitable replacement will materially and adversely affect our business, financial condition and operational results. For further details on the experience of our senior management team, please refer to “Directors and Senior Management” in this document.

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

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

- the external contractors hired by us may not be able to complete the construction or installation work in our upgrading and expansion works on time, within budget or to the specifications or standards required;
- shortages of, and price increases in, equipment, materials or labour;
- changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our facilities, including their upgrading and expansion works;
- accidents during upgrading and expansion or operation of our wastewater treatment facilities;
- extreme adverse weather conditions, or fire, typhoons or other natural disasters;
- engineering, construction-related, regulatory and equipment problems;
- materials and equipment suppliers for our Wastewater Treatment Plants or our upgrading and expansion works may not supply the required materials or equipment in the expected quantities/quality or at all;
- governmental or other statutory approvals or other approvals that are required for the upgrading and expansion or operation of our Wastewater Treatment Plants (including the upgraded and/or expanded parts) may be delayed or denied; and
- we may not be able to accurately estimate the pollutant levels in the inflow of wastewater into our wastewater treatment facilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RISKS RELATING TO BUSINESS OPERATIONS IN THE PRC

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

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

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

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

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

- the amount and degree of the PRC government's involvement;
- growth rate and degree of development;
- uniformity in the implementation and enforcement of laws;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

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

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. Our business, financial condition and operational results may be materially and adversely affected by the policies of the PRC government, such as measures to control inflation and to tighten its monetary policies, changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion. These actions, as well as future actions and policies of the PRC government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse impact on our business, financial condition and operational results.

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

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

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

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

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

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

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

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

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

Our Group is subject to general economic and social conditions in the PRC. Natural disasters, epidemics, acts of war or terrorism and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. Some regions in the PRC are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome or H5N1 avian flu. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and operational result.

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

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

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

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

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

The EIT Law and its implementation rules, which provided for the levying of withholding tax on PRC-sourced income, are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to identification of PRC-sourced income. Please refer to “Regulatory Overview — Taxation — Enterprise Income Tax” in this document for details. If we were considered to be a PRC “resident enterprise” under the EIT Law, it is unclear whether the dividends we pay with respect to the Shares, or the gain our foreign Shareholders (excluding individual natural persons) may realise from the sale of the Shares, may be treated as income derived from sources within the PRC and be subject to PRC income tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if they are required to pay PRC income tax on the transfer of the Shares, the value of their investment in the Shares may be materially and adversely affected.

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

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

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RISKS RELATING TO THE [REDACTED]

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

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

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

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

Dilution from the issue of additional Shares in future

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

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

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

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

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

Impact of granting options under the Share Option Scheme

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

We may be unable to pay any dividend on the Shares

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

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

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

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

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

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

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

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