



# China Everbright Water Limited

## 中國光大水務有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1857



# GLOBAL OFFERING

Joint Sponsors



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



## IMPORTANT

If you are in any doubt about any of the contents of this Prospectus, you should seek independent professional advice.



### China Everbright Water Limited

中國光大水務有限公司

(Incorporated in Bermuda with limited liability)

#### GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 103,970,000 Shares (subject to the Over-allotment Option)  
Number of Hong Kong Public Offer Shares : 10,398,000 Shares (subject to adjustment)  
Number of International Offer Shares : 93,572,000 Shares (subject to adjustment and the Over-allotment Option)  
Maximum Offer Price : HK\$4.35 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)  
Nominal value : HK\$1.00 per Share  
Stock code : 1857

#### Joint Sponsors



#### Joint Global Coordinators



#### Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in the section titled "Documents Delivered to the Registrar of Companies and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

Our Company is incorporated in Bermuda and substantially all of our businesses are located in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between Bermuda, the PRC and Hong Kong and that there are different risk factors relating to the investment in our Company. Potential investors should also be aware that the regulatory frameworks in Bermuda and the PRC are different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may be offered or sold only outside the United States in offshore transactions in accordance with Regulation S.

The Offer Price is expected to be fixed by agreement between the Joint Representatives (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, April 29, 2019 and, in any event, not later than Monday, April 29, 2019, or such other date as agreed between parties. The Offer Price will be no more than HK\$4.35 per Offer Share and is currently expected to be no less than HK\$2.99 per Offer Share unless otherwise announced. If, for any reason, the Offer Price is not agreed by Monday, April 29, 2019, or such other date as agreed between parties between the Joint Representatives (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus, including the risk factors set out in the section titled "Risk Factors".

The Joint Representatives (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below as stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.ebwater.com not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by us as soon as practicable. For further information, please refer to the sections titled "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please refer to the section titled "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination".

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.ebwater.com](http://www.ebwater.com).*

Application lists open <sup>(2)</sup>	11:45 am Monday, April 29, 2019
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms	12:00 noon Monday, April 29, 2019
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(3)</sup>	12:00 noon Monday, April 29, 2019
Application lists close	12:00 noon Monday, April 29, 2019
Expected Price Determination Date <sup>(4)</sup>	Monday, April 29, 2019
(1) Announcement of: <ul style="list-style-type: none"><li>• the Offer Price;</li><li>• the level of applications in the Hong Kong Public Offering;</li><li>• an indication of the level of interest in the International Offering; and</li><li>• the basis of allocation of the Hong Kong Public Offer Shares</li></ul> to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and our Company's website at <a href="http://www.ebwater.com">www.ebwater.com</a> on or before <sup>(5)</sup>	Tuesday, May 7, 2019
(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see paragraph entitled "Publication of Results" in the section entitled "How to Apply for Hong Kong Public Offer Shares") from <sup>(6)</sup>	Tuesday, May 7, 2019
Results of allocations in the Hong Kong Public Offering will be available at <a href="http://www.ewhiteform.com.hk/results">www.ewhiteform.com.hk/results</a> with a "search by ID" function from	Tuesday, May 7, 2019
Dispatch/Collection Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before <sup>(7)</sup>	Tuesday, May 7, 2019
Dispatch/Collection of refund cheques on or before <sup>(7)(8)</sup>	Tuesday, May 7, 2019
Dealings in Shares on the Hong Kong Stock Exchange to commence on	Wednesday, May 8, 2019

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*Notes:*

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated. Details of the structure of the Global Offering, including its condition, are set out in the section headed “Structure of the Global Offering” in this Prospectus.
- (2) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, April 29, 2019, the application lists will not open and close on that day. Please refer to the section entitled “How to Apply for Hong Kong Public Offer Shares — 9. Effect of Bad Weather on the Opening of the Application Lists”.
- (3) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section entitled “How to Apply for Hong Kong Public Offer Shares — 5. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS”.
- (4) The Price Determination Date is expected to be on or around Monday, April 29, 2019 (Hong Kong time) and, in any event, not later than Monday, April 29, 2019 (Hong Kong time), or such other date as agreed between parties. If, for any reason, the Offer Price is not agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company by Monday, April 29, 2019, or such other date as agreed between parties, the Global Offering will not proceed and will lapse.
- (5) None of the websites or any of the information contained on the website forms part of this Prospectus.
- (6) No temporary documents of title will be issued in respect of the Offer Shares. Share certificates are expected to be issued on Tuesday, May 7, 2019 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Wednesday, May 8, 2019. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely at their own risk.
- (7) Applicants who apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all required information may collect refund cheques (where applicable) and Share certificates (where applicable) in person from our Hong Kong Share Registrar, from 9:00 a.m. to 1:00 p.m. on Tuesday, May 7, 2019. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. Uncollected refund cheques and Share certificates will be despatched promptly by ordinary post to the addresses as specified in the applicants’ Application Forms at the applicants’ own risk. For details of the arrangements, please see the section headed “How to Apply for Hong Kong Public Offer Shares” in this Prospectus.
- (8) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

You should read carefully the sections entitled “Underwriting,” “Structure of the Global Offering” and “How to Apply for Hong Kong Public Offer Shares” for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Public Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.

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### IMPORTANT NOTICE TO INVESTORS

*This Prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers, representatives or advisers or any other person involved in the Global Offering.*

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## SUMMARY

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*This summary is intended to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this Prospectus in its entirety.*

### OVERVIEW

We are a leading integrated water environmental solutions provider in the PRC, providing a comprehensive range of environmental water services. Our business spans wastewater treatment, water environment treatment, integrated utilization of water resources and water ecological protection. According to Frost & Sullivan, we are the largest Central State-Owned Enterprise operating in the wastewater treatment industry in the PRC, as well as the third largest wastewater treatment service provider in the Bohai Economic Rim in terms of treatment capacity in 2017. We are also one of the top 10 integrated water resources solutions providers in the PRC in terms of 2017 market share, and one of only three companies in the PRC that was ranked in the top 10 in both the municipal wastewater treatment market and the water environment management market in 2017. We are listed on the SGX-ST Main Board.

We offer comprehensive and integrated water environment management solutions to our customers, including municipal and industrial wastewater treatment, sludge treatment and disposal, water environment treatment, sponge city construction, reusable water, wastewater heat source pump, leachate treatment, research and development of water environment technologies and engineering construction. For details, see “Business – Our Business”. During the Track Record Period, substantially all of our projects were undertaken under service concession arrangements. For most of our service concession arrangements, we adopted either BOT or TOT project models according to the relevant service concession arrangements. As of December 31, 2018, of our 85 projects in operation, 64 were BOT projects and 18 were TOT projects. For further details, see “Business — Project Models”.

We have a strong track record of growth in the water industry in the PRC. According to Frost & Sullivan, from 2015 to 2017, the growth rates of our revenue and net profit were one of the highest as compared with companies listed on the Hong Kong Stock Exchange with a similar business scope of providing water management solutions, and our total assets increased from HK\$14,081.2 million as at December 31, 2016 to HK\$19,584.4 million as at December 31, 2018. We generally achieve our growth through three major ways: (i) obtaining new projects from local governments; (ii) project upgrade and expansion and (iii) acquisitions. In 2014, our shares were listed on the SGX-ST Main Board through the acquisition of HanKore by way of a reverse takeover which involved the acquisition of 17 existing projects, with an aggregate designed wastewater treatment capacity of approximately 795,000 tonnes/day, and the further addition of seven new projects after the acquisition. In 2015, we acquired 90% of the equity interests in Dalian Dongda, which boosted our aggregate designed wastewater treatment capacity by approximately 835,000 tonnes/day and further elevated our market position as we acquired 16 existing projects and obtained five new projects after the acquisition. As a result of our acquisitions, we have expanded into new areas of China including Beijing and Nanjing.

Our total revenue was HK\$2,494.0 million, HK\$3,591.6 million and HK\$4,768.3 million for the years ended December 31, 2016, 2017 and 2018. Our gross profit was HK\$905.7 million, HK\$1,230.6

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## SUMMARY

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million and HK\$1,623.8 million for the same years respectively. For the same years, our wastewater treatment line of business accounted for 97.6%, 64.9% and 74.7% of our revenue and 96.5%, 78.3% and 75.9% of our gross profit, respectively.

### OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following strengths: (i) we are a leading integrated water environmental solutions provider in the PRC, benefitting from the PRC government's favorable policies and the rapid development of the water industry; (ii) we have extensive experience in providing diversified types of water environment solutions and we are well positioned to take advantage of opportunities which arise in our markets to pioneer new service offerings; (iii) we have strong potential for organic growth as well as expansion through acquisitions as supported by a proven track record and a strong project pipeline; (iv) we are devoted to the development of our core technology and have strong research and development capabilities; (v) we possess unparalleled competitive edge and growth prospects founded on the "Everbright" brand; and (vi) we have an experienced and market-driven management team with strong execution capabilities. For details of our strengths, see "Business – Our Competitive Strengths".

### OUR BUSINESS STRATEGIES

We plan to pursue the following business strategies: (i) continue to strengthen our presence in the Bohai Economic Rim and the Yangtze River Delta, and to expand our services to other economically developed areas, such as the Guangdong-Hong-Kong-Macau Greater Bay Area, the Pearl River Delta, as well as their surrounding suburban and rural areas; (ii) seize policy opportunities in the PRC water industry, further expand our market share and continue to diversify our project portfolio through organic growth and acquisitions and create synergies between our existing projects; (iii) enhance our core technologies through innovative research and development initiatives to increase our technical competitiveness; (iv) continue to implement management systems to improve the quality and efficiency of our operation and ensure our sustainable and stable development; and (v) explore different channels of financing to achieve prudent financial and operational management in order to provide sustainable return for our Shareholders. For details of our strategies, see "Business — Our Business Strategies".

### SERVICE CONCESSION ARRANGEMENTS

During the Track Record Period, substantially all of our projects were undertaken under service concession arrangements. For the years ended December 31, 2016, 2017 and 2018, approximately 99.6%, 100.0% and 97.9%, respectively, of our revenue was derived from our service concession arrangements. A service concession arrangement is an arrangement whereby a government or other public sector body (the "Government Grantor"), contracts with a private operator to develop (or upgrade), operate and maintain infrastructure assets including wastewater treatment plants. The Government Grantor and the operator enter into concession agreement(s) which regulate the scope and price of services that the operator provides by utilizing the assets, and also sets out the treatment of any significant residual interests in the assets at the end of the term of the arrangement.



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## SUMMARY

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### PROJECT MODELS

During the Track Record Period, for most of our service concession arrangement projects, we adopted the BOT or TOT project models.

#### **BOT Project Model**

Prior to the commencement of a BOT project, we will enter into a concession agreement and a service agreement (collectively, the “**BOT Agreements**”) with the relevant municipal authority, pursuant to which we will raise necessary funds for the construction of the project, to provide services such as municipal wastewater treatment. The concession period for our BOT projects usually lasts from 20 to 30 years. After the concession period expires, the project company will transfer the project facilities and such relevant documents and materials, including but not limited to the operation records and design blueprints, to the relevant municipal authority without any compensation.

#### **TOT Project Model**

Prior to commencement of a TOT project, we will enter into a concession agreement, a service agreement and an asset transfer agreement (collectively, the “**TOT Agreements**”) with the relevant municipal authority, pursuant to which we will incorporate a project company which will raise funds as are necessary for the completion of the TOT project (including equity and debt financing), and purchase existing project assets from the municipal authority in accordance with the TOT Agreements. Our project company will then proceed to (a) take over the project assets which are transferred from the municipal authority to our project company in accordance with the project asset transfer list in the TOT Agreements; and (b) carry out performance tests as are necessary on the existing project assets.

Regardless of whether they are under the BOT or TOT model, most of our projects have the following characteristics:

- We receive payments from customers only in the business operation stage of each project, typically for 20 to 30 years.
- Through the payment received from customers, we recoup project construction costs or acquisition costs, cover our operational cost and earn profits.
- As a result of these business models, we incur significant cash outflows in the early years of a project, and are exposed to operational risk and the credit risk of our customers until the end of the service period as stipulated in the contract. Accordingly, the initial cash outflow for each project will exceed cash inflow resulting from the mismatch between cash spent during the construction phase or for the acquisition of the project and cash generated during the operation phase. Please see “Risk Factors — Risks Relating to our Business and Industry — There is a mismatch between our revenue and the underlying

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## SUMMARY

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cash flows for our projects accounted for as service concession agreements. In addition, the business models we adopt can adversely affect our financial performance and liquidity position”.

### PRICING FOR OUR PROJECTS

For the years ended December 31, 2016, 2017 and 2018, our wastewater treatment and water environment treatment projects accounted for 97.7%, 96.5% and 87.8%, respectively, of our revenue. Details of our pricing for wastewater treatment and water environment treatment projects are as follows:

**Wastewater Treatment:** The tariff for our wastewater treatment services is usually set and calculated by the relevant local governments according to formulas set out in the relevant service concession agreements. The service concession agreements generally set out a guaranteed minimum volume of wastewater to be treated and a guaranteed minimum unit price. The actual unit price the local governments charge to end users does not affect the tariff. See “Business — Our Projects under Service Concession Arrangements” for details of our service concession arrangements and guaranteed minimum treatment volumes.

**Water Environment Treatment:** The tariff for our water environment treatment services is calculated by adopting a cash flow analysis performed based on the financial model prepared as required under the tender documents relating to the projects.

For further details, see “Business — Customers and Pricing”.

### CUSTOMERS AND SUPPLIERS

For our wastewater treatment, water environment treatment and other projects, our customers are generally municipal, district or county-level governments in the PRC and end users of our water supply projects. The total revenue from our top five customers for the years ended December 31, 2016, 2017 and 2018 were approximately HK\$1,465.5 million, HK\$1,646.9 million and HK\$2,786.9 million, respectively, accounting for approximately 58.8%, 45.9% and 58.4% of our total revenue for such periods, respectively. For the same periods, our largest customer accounted for 27.6%, 12.6% and 33.2% of our total revenue, respectively. For further details, see “Business — Customers and Pricing”.

Our principal suppliers are construction contractors who construct our treatment and supply plants, design institutes that designed our treatment plants or supply plants, equipment suppliers, suppliers of raw materials, such as wastewater treatment chemicals, and electricity suppliers who provide electricity to our facilities, which we usually obtain from the local suppliers in the PRC. For the years ended December 31, 2016, 2017 and 2018, our five largest suppliers accounted for approximately 13.4%, 13.8% and 19.9%, respectively, of our total purchase costs, and purchases from our largest supplier accounted for approximately 5.0%, 5.1% and 8.7% of our total purchase costs, respectively, during the same period. For further details, see “Business — Suppliers”.

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## SUMMARY

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### OUR SHAREHOLDING STRUCTURE

#### Our Controlling Shareholder

Immediately following the completion of the Global Offering, CEIL will control approximately 72.43% of the issued share capital of our Company through CEWHL, assuming the Over-allotment Option is not exercised. Accordingly, CEIL will, indirectly through its wholly-owned subsidiary CEWHL, continue to be our Controlling Shareholder. The Directors believe that our Group is capable of carrying out its business independently of our Controlling Shareholder and its associates. For further information, see “Relationship with Controlling Shareholder”.

### PROJECT FINANCING

We fund the development and construction costs of our service concession arrangement projects and construction projects through internal resources, bank and other loans, as well as the proceeds from the First Tranche Panda Bonds, the Second Tranche Panda Bonds and the Third Tranche Panda Bonds. For the years ended December 31, 2016, 2017 and 2018, our capital expenditures, which included consideration paid for acquisitions of subsidiaries and TOT projects, construction cost incurred for BOT projects, additions of property, plant and equipment and intangible assets (excluding concession rights), were HK\$1,276.5 million, HK\$1,922.7 million and HK\$2,247.4 million, respectively. As of February 28, 2019, total borrowings amounted to HK\$8,746.5 million. As of the Latest Practicable Date, our planned capital expenditure for the year ending December 31, 2019 was expected to be approximately HK\$3,183.1 million. For further details, see “Business — Project Financing”.

### DIVIDENDS

Subject to the Bermuda Companies Act and our Bye-laws, our Board may declare a dividend in any currency to be paid to the Shareholders and such dividend may be paid in cash or wholly or partly in specie, in which case the Board may fix the value for distribution in specie of any assets. The Board may declare and make such other distributions (in cash or in specie) to the Shareholders as may be lawfully made out of the assets of the Company. The Company in general meeting may also, subject to the Bye-laws and in accordance with the Bermuda Companies Act, declare a dividend or such other distribution to be paid to the Shareholders, but no dividend or distribution shall be declared by the Company in general meeting in excess of the amount recommended by the Board. In addition, the declaration of dividends is subject to the discretion of our Board, and the amounts of dividends actually declared and paid will also depend on: (i) our general business conditions; (ii) our financial results; (iii) our capital requirements; (iv) interests of our shareholders; and (v) any other factors which our Board may deem relevant.

Our Company has adopted the Scrip Dividend Scheme on October 28, 2005 to provide Shareholders with the option to elect to receive Shares in lieu of the cash amount of any dividend declared on their holding of Shares. Pursuant to an ordinary resolution passed at the annual general

## SUMMARY

meeting of the Company held on April 12, 2019, our Directors were authorized to allot and issue from time to time such number of Shares in the Company as may be required to be allotted and issued pursuant to the terms and conditions of the Scrip Dividend Scheme until the next annual general meeting of the Company.

We declared final dividends of HK\$52.3 million and HK\$77.0 million for the years ended December 31, 2016 and 2017, respectively, and an interim dividend of HK\$74.6 million for the six months ended June 30, 2018. We have approved a final dividend of HK\$77.2 million for the year ended December 31, 2018, where eligible Shareholders (being our Shareholders as at April 17, 2019) could elect between a cash dividend and a scrip dividend. The dividend payment is not indicative of any current or future dividend policy and our Board has absolute discretion in deciding whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. We currently do not have a predetermined dividend payout ratio. There can be no assurance that dividends of any amount will be declared or distributed in any year. See “Risk Factors — Risks Relating to the Listing and our Shares – We cannot guarantee that we will pay dividends”. For information relating to taxes payable on dividends, see “Risk Factors — Risks Relating to Conducting Business in the PRC — Dividends from our PRC subsidiaries and dividends on our Shares and gains on the sales of our Shares may be subject to PRC withholding taxes”.

### SUMMARY OF OPERATIONAL AND FINANCIAL DATA

The following table sets forth selected items of our consolidated income statement for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Revenue	2,494,037	3,591,633	4,768,318
Direct costs and operating expenses	(1,588,385)	(2,361,046)	(3,144,540)
<b>Gross profit</b>	<b>905,652</b>	<b>1,230,587</b>	<b>1,623,778</b>
Other income and gains, net	127,666	129,809	140,583
Administrative and other operating expenses	(298,250)	(287,021)	(439,564)
Finance income	7,631	12,463	17,918
Finance costs	(205,223)	(241,391)	(291,398)
Share of profits of associates	—	158	422
<b>Profit before tax</b>	<b>537,476</b>	<b>844,605</b>	<b>1,051,739</b>
Income tax	(164,861)	(263,812)	(314,984)
<b>Profit for the year</b>	<b>372,615</b>	<b>580,793</b>	<b>736,755</b>
Profit for the year attributable to:			
Equity holders of the Company	349,343	513,356	676,459
Non-controlling interests	23,272	67,437	60,296
	<b>372,615</b>	<b>580,793</b>	<b>736,755</b>

## SUMMARY

### Non-IFRS Measures<sup>(1)</sup>

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%(2)	HK\$'000	%	HK\$'000	%
EBIT <sup>(2)</sup>	742,699	29.8%	1,085,996	30.2%	1,343,137	28.2%
EBITDA <sup>(2)</sup>	843,975	33.8%	1,181,075	32.9%	1,432,579	30.0%

Notes:

- (1) For a reconciliation of profit or loss before income tax and finance costs (“EBIT”) and profit or loss before income tax, finance costs, depreciation of property, plant and equipment, and amortization of prepaid land lease payments and intangible assets (“EBITDA”) to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit for the year. For more information, please see “Financial Information — Other Financial Measures”.
- (2) EBIT margin is calculated by dividing EBIT by revenue. EBITDA margin is calculated by dividing EBITDA by revenue.

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use EBIT and EBITDA as additional financial measures. We present these financial measures as they are used by our management to evaluate our operating performance. We also believe that these financial measures provide useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

The use of EBIT and EBITDA is subject to certain limitations as it does not reflect all items of income and expenses that affect our operations. For more information, please see “Financial Information — Other Financial Measures”.

We compensate for these limitations by reconciling the financial measures to the nearest IFRS performance measure, all of which should be considered when evaluating our performance. The following table reconciles our EBIT and EBITDA for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit for the year:

	For the year ended December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Profit for the year	372,615	580,793	736,755
Add:			
Income tax	164,861	263,812	314,984
Finance costs	205,223	241,391	291,398
<b>EBIT<sup>(1)</sup></b>	<b>742,699</b>	<b>1,085,996</b>	<b>1,343,137</b>
Add:			
Depreciation of property, plant and equipment	14,680	14,613	16,736
Amortization of prepaid land lease payments	306	347	357
Amortization of intangible assets	86,290	80,119	72,349
<b>EBITDA<sup>(2)</sup></b>	<b>843,975</b>	<b>1,181,075</b>	<b>1,432,579</b>

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## SUMMARY

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*Notes:*

- (1) EBIT represents profit or loss before income tax and finance costs.
- (2) EBITDA represents profit or loss before income tax, finance costs, depreciation of property, plant and equipment and amortization of prepaid land lease payments and intangible assets.

The following table sets out our cash flows for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Net cash flows from operating activities before working capital change	795,653	1,185,273	1,473,479
Net cash flows from/(used in) operating activities	20,195	(264,260)	(1,015,647)
Net cash flows used in investing activities	(6,329)	(390,863)	(53,541)
Net cash flows from financing activities	142,364	1,281,291	781,806
Cash and cash equivalents at end of the year	1,359,401	2,074,414	1,706,871

Our operating cash flows is affected by the number and total investment amount of projects under construction. Due to the increase in the number of large-scale BOT projects under construction during the Track Record Period, our cash flows used in operating activities have exceeded cash flows from operating activities as the cash we spend on construction or acquisition of the projects is recorded as cash used in operating activities, especially during the year ended December 31, 2018. We expect our cash flow position to improve when the construction of BOT and TOT projects in our pipeline are completed and commence operation, which would result in cash inflow in the form of cash tariff payments over the stipulated concession periods. In addition, our management has been working extensively and closely with our customers to recover our outstanding trade receivables, which is expected to improve our cash flows from operations. For more information, please see "Financial Information — Liquidity and Capital Resources".

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## SUMMARY

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### Summary Operating Results by Business Line

The following table sets out details of our total revenue by lines of business for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Wastewater treatment</b>						
Municipal wastewater treatment	2,407,687	96.5	2,047,551	57.1	3,509,933	73.7
Industrial wastewater treatment	27,332	1.1	281,496	7.8	48,652	1.0
<b>Subtotal</b>	<b>2,435,019</b>	<b>97.6</b>	<b>2,329,047</b>	<b>64.9</b>	<b>3,558,585</b>	<b>74.7</b>
<b>Water environment treatment</b>	<b>1,859</b>	<b>0.1</b>	<b>1,135,212</b>	<b>31.6</b>	<b>624,254</b>	<b>13.1</b>
<b>Others</b>						
Water supply	—	—	80,697	2.2	438,267	9.1
Reusable water	30,726	1.2	28,613	0.8	29,104	0.6
Wastewater source heat pump	16,785	0.7	17,353	0.5	17,544	0.4
EPC construction, consultancy work and other services	9,648	0.4	711	—	100,564	2.1
<b>Subtotal</b>	<b>57,159</b>	<b>2.3</b>	<b>127,374</b>	<b>3.5</b>	<b>585,479</b>	<b>12.2</b>
<b>Total</b>	<b>2,494,037</b>	<b>100.0</b>	<b>3,591,633</b>	<b>100.0</b>	<b>4,768,318</b>	<b>100.0</b>

## SUMMARY

The following table sets forth our revenue by project phase in which the revenue was recognized for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Wastewater treatment</b>						
Construction revenue	1,133,784	45.5	922,306	25.7	1,738,886	36.5
Operation revenue	766,048	30.6	833,592	23.2	1,178,012	24.7
Finance income	535,187	21.5	573,149	16.0	641,687	13.5
<b>Subtotal</b>	<b><u>2,435,019</u></b>	<b><u>97.6</u></b>	<b><u>2,329,047</u></b>	<b><u>64.9</u></b>	<b><u>3,558,585</u></b>	<b><u>74.7</u></b>
<b>Water environment treatment</b>						
Construction revenue	—	—	1,108,289	30.9	554,445	11.6
Operation revenue	—	—	—	—	4,878	0.1
Finance income	1,859	0.1	26,923	0.7	64,931	1.4
<b>Subtotal</b>	<b><u>1,859</u></b>	<b><u>0.1</u></b>	<b><u>1,135,212</u></b>	<b><u>31.6</u></b>	<b><u>624,254</u></b>	<b><u>13.1</u></b>
<b>Others</b>						
Construction revenue	—	—	80,697	2.2	416,038	8.7
Operation revenue	45,782	1.8	44,834	1.2	54,781	1.1
Finance income	1,729	0.1	1,132	0.1	14,096	0.3
Others <sup>(1)</sup>	9,648	0.4	711	—	100,564	2.1
<b>Subtotal</b>	<b><u>57,159</u></b>	<b><u>2.3</u></b>	<b><u>127,374</u></b>	<b><u>3.5</u></b>	<b><u>585,479</u></b>	<b><u>12.2</u></b>
<b>Total</b>	<b><u>2,494,037</u></b>	<b><u>100.0</u></b>	<b><u>3,591,633</u></b>	<b><u>100.0</u></b>	<b><u>4,768,318</u></b>	<b><u>100.0</u></b>

Note:

- (1) Others represent EPC construction, consultancy work and other services where revenue derived from such business is not affected by project phase.

The fluctuations in our revenue by project phase during the Track Record Period is primarily due to fluctuations in the construction revenue, operation revenue and finance income generated from our wastewater treatment, water environment treatment and others lines of business. For more information, please see “Financial Information — Period to Period Comparison of Results of Operations”.



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## SUMMARY

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### Financial Ratios

The following table sets forth certain of our financial ratios as of the dates or for the years indicated:

	As of/For the year ended December 31,		
	2016	2017	2018
Return on assets <sup>(1)</sup>	2.7%	3.6%	3.9%
Return on equity <sup>(2)</sup>	5.1%	7.4%	8.6%
Current ratio <sup>(3)</sup>	1.3	1.4	1.2
Quick ratio <sup>(4)</sup>	1.3	1.4	1.2
Asset-liability ratio <sup>(5)</sup>	48.9%	52.7%	55.8%
Gearing ratio <sup>(6)</sup>	68.0%	77.6%	87.7%
Interest coverage ratio <sup>(7)</sup>	3.6	4.5	4.6
Gross profit margin <sup>(8)</sup>	36.3%	34.3%	34.1%
Net profit margin <sup>(9)</sup>	14.9%	16.2%	15.5%

*Notes:*

- (1) Return on assets is calculated by dividing profit for the year by the average of total assets as of the beginning of the year and the end of the year.
- (2) Return on equity is calculated by dividing profit for the year by the average of total equity as of the beginning of the year and the end of the year.
- (3) Current ratio is calculated by dividing current assets by current liabilities at the end of each year.
- (4) Quick ratio is calculated by dividing current assets less inventories by current liabilities at the end of each year.
- (5) Asset-liability ratio is calculated by dividing total liabilities by total assets at the end of each year.
- (6) Gearing ratio is calculated by dividing total borrowings by total equity at the end of each year.
- (7) Interest coverage ratio is calculated by dividing our profit before interest and tax by our cash interest expense for each year.
- (8) Gross profit margin is calculated by dividing gross profit for the year by revenue of the stated period.
- (9) Net profit margin is calculated by dividing profit for the year by revenue of the stated period.

See “Financial Information — Financial Ratios” for an explanation of the fluctuation of our financial ratios during the Track Record Period.

### Accounting Treatment of Service Concession Arrangements

The accounting treatment of service concession arrangements varies with the type of project, involves judgment, and affects the presentation of our results of operation. Several key aspects of this accounting treatment are summarized below. For more information about service concession arrangements and our projects, see “Business — Service Concession Arrangements”. For more information about the accounting treatment of service concession arrangements, see “Financial Information — Factors Affecting Our Results of Operations — Impact of the accounting treatment for

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## SUMMARY

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service concession arrangements”, “Financial Information — Critical Accounting Policies, Estimates and Judgments — Service concession arrangements” and “Financial Information — Critical Accounting Policies, Estimates and Judgments — Revenue recognition”.

During the construction phase of BOT projects under the service concession arrangements, we recognize construction revenue in our results of operation but generally do not receive payment from the project’s grantor or payment obligor until the project has entered into operation, which is when we begin collecting service tariffs. Thus there is a mismatch between the recognition of construction revenue and cash flows during the construction phase. The non-cash construction revenue is recorded as an asset on our statement of financial position.

For service concession projects without a guaranteed stream of future payments based on minimum treatment volumes, construction revenue is recorded on our statement of financial position as an intangible asset, which is amortized on a straight-line basis over the term of the service concession. During the operation phase of the project, the entire sum of service fee we receive is recorded as operating revenue.

For service concession projects with a guaranteed future revenue stream, we treat construction revenue as a financial asset, which is recorded as “service concession financial receivables” on our statement of financial position. We recognize finance income as service concession financial receivables in the statement of financial position during both the construction and operation phases for projects that are accounted for as service concession arrangements. Finance income represents the amount of interest on the outstanding balance of the service concession financial receivables using the effective interest method at the prevailing PBOC rate at the time we enter into the relevant agreement. In the operation phase of the project, when we collect the service fee, we use a portion of the service fee billed to pay down the balance of service concession financial receivables, recognize a portion as financial income during the operation phase, and recognize the remainder as operation revenue.

The balance of service concession financial receivables will be completely paid down at the end of the concession period.

For TOT projects, the consideration we pay to the grantor to obtain the right to operate the service concession is recorded as an asset, either as service concession financial receivables, in the case of concessions with guaranteed revenue stream, or as intangible assets, in the case of concessions without a guaranteed revenue stream.

We consider the construction revenue plus any interest thereon, in the case of BOT projects, and consideration paid to the grantor, in the case of TOT projects, to be our upfront investment. If our upfront investment in a project exceeds the guaranteed future revenue stream of a project discounted using a pre-set interest rate to the time at which we commence operation, we record the excess amount as intangible assets and the discounted guaranteed revenue stream amount as service concession financial receivables.

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The following roll forward table sets forth the movements in the balances of service concession financial receivables and intangible assets during the Track Record Period.

	<u>Intangible assets- Concession rights</u>	<u>Service concession financial receivables</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
<b>At January 1, 2016</b>	1,397,668	8,606,632
Additions*	—	1,773,306
Amortization	(71,750)	—
Disposal of a subsidiary	(3,385)	—
Progress billings	—	(797,005)
Exchange realignment	<u>(89,371)</u>	<u>(611,592)</u>
<b>At December 31, 2016</b>	1,233,162	8,971,341
Additions*	219,993	2,720,978
Amortization	(66,095)	—
Progress billings	—	(806,687)
Exchange realignment	<u>87,706</u>	<u>628,631</u>
<b>At December 31, 2017</b>	1,474,766	11,514,263
Additions*	181,095	3,247,009
Amortization	(66,255)	—
Progress billings	—	(1,018,638)
Exchange realignment	<u>(74,610)</u>	<u>(590,651)</u>
<b>At December 31, 2018</b>	<u>1,514,996</u>	<u>13,151,983</u>

*Note:*

- \* Additions to intangible assets associated with operating concessions and service concession financial receivables represent (a) construction revenue and finance income (for service concession financial receivables) recognized during construction period; and (b) consideration paid for acquiring TOT projects or land use rights, less government grants, if any.

We assess at each reporting date whether an asset, including service concession financial receivables and intangible assets may be impaired, or when annual impairment testing for an asset is required. For more information, please refer to “Financial Information — Factors Affecting Our Results of Operations — Impact of the accounting treatment for service concession arrangements” and “Financial Information — Critical Accounting Policies, Estimates and Judgment — Impairment of non-financial assets”.

### Goodwill

As of December 31, 2018, we had approximately HK\$1,242.7 million of goodwill on our consolidated statements of financial position. During the Track Record Period, no impairment to goodwill had been made. For details of our goodwill and sensitivity analysis, see Note 17 to the Accountants’ Report in Appendix I to this Prospectus.

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## SUMMARY

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Goodwill is initially measured at cost. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each cash-generating unit, or groups of cash-generating units. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (groups of cash-generating units) to which goodwill relates. If the recoverable amount is less than the carrying amount, an impairment loss is recognized.

When determining the recoverable amount, either methods of fair value less costs of disposal or value in use can be applied, whichever is higher. Fair value less costs of disposal is the price which a buyer is willing to pay and a seller is willing to accept in an arm's length transaction, less any incremental costs directly attributable to the disposal, which requires an active market or reliable market information. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There are inherent uncertainties related to these factors and to our judgment in applying these factors to the assessment of goodwill recoverability. Impairment charges could substantially affect our reported results of operations in the periods of such charges. See also "Risk Factors — If our goodwill is impaired, our reported financial results could be negatively affected" and "Financial Information — Liquidity and Capital Resources — Goodwill".

### **Negative Operating Cash Flows**

We recorded negative operating cash flows for the year ended December 31, 2017 and the year ended December 31, 2018, respectively, of HK\$264.3 million and HK\$1,015.6 million. Our negative cash flows from operating activities were mainly due to the construction of BOT projects or acquisition of TOT projects under service concession arrangements. We generally spend cash upfront to build such BOT projects or acquire such TOT projects and do not receive cash payments until the project enters into operation. The cash we spend on construction or acquisition of such projects is recorded as cash used in operating activities. In general we only receive cash payments in the operation phase of our projects under the BOT project model, we usually incur net cash outflow during the construction phase of our project. As of December 31, 2016, 2017 and 2018, we had seven, 12 and 13 BOT projects under construction, respectively. Our operating cash flow is affected by the number and scale of projects under construction or being acquired. Due to the increase in large-scale BOT projects under construction or TOT projects being acquired during the Track Record Period, our cash used in operating activities have exceeded cash flows generated from operating activities. If we continue to have negative operating cash flows in the future, our liquidity and financial condition may be materially and adversely affected. For details, see "Risk Factors — We recorded negative operating cash flow during the Track Record Period. If we record negative operating cash flows in the future, our liquidity and financial condition may be materially and adversely affected" and "Financial Information — Liquidity and Capital Resources — Net cash flows from/(used in) operating activities". For details of the accounting treatment of cash used in construction by project type, see "Financial Information — Factors Affecting our Results of Operations — Impact of the accounting treatment for service concession arrangements".

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## SUMMARY

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### HISTORICAL NON-COMPLIANCE

Instances of non-compliance involving our Group during the Track Record Period and up to the Latest Practicable Date included: (i) failure to complete the Filing of Investment Project by the Enterprises for the construction of a certain project; (ii) failure to obtain the construction land use planning permits for the construction of certain projects; (iii) failure to obtain the construction planning permits for the construction of certain projects; (iv) failure to obtain the construction work commencement permits for the construction work of certain projects; (v) failure to complete the relevant completion inspection and acceptance filing formalities for the operation of certain projects; and (vi) failure to complete the environmental protection inspection and acceptance formalities for the operation of certain projects. As of the Latest Practicable Date, we had rectified non-compliance incidents by obtaining relevant requested permits or obtained confirmations from the competent government authorities that the risk of us being penalized with respect to such non-compliance incidents is low for most of our projects. We have also implemented a series of internal control measures to prevent future recurrence of these non-compliance incidents. See “Business – Non-Compliance” for further details.

### PROPERTIES

As of the Latest Practicable Date, some of our projects lacked required certificates and/or permits for certain properties we occupied under service concession agreements. For further details relating to our properties, see “Business — Properties”.

### OFFER STATISTICS

The Global Offering comprises of: (i) the Hong Kong Public Offering of 10,398,000 Shares (subject to reallocation) in Hong Kong and (ii) the International Offering of 93,572,000 Shares (subject to reallocation and the Over-allotment Option) outside the United States in offshore transactions in reliance on Regulation S. The following table sets out certain offering related data, assuming that: (a) the Global Offering has been completed and 2,780,032,186 Shares are in issue; and (b) the Over-allotment Option has not been exercised.

	<u>Based on minimum indicative Offer Price of HK\$2.99</u>	<u>Based on maximum indicative Offer Price of HK\$4.35</u>
Market capitalization of our Shares	HK\$8,312 million	HK\$12,093 million
Unaudited <i>pro forma</i> adjusted net tangible assets per Share	HK\$1.97	HK\$2.02

Our Shares will not be securities eligible for the Shanghai and Shenzhen Stock Connect Program immediately after completion of the Global Offering. Pursuant to Article 23 of the ChinaClear Stock Connect Implementing Rules, ChinaClear will not provide services relating to IPO subscriptions to southbound investors.

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## SUMMARY

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### DUAL LISTINGS

Our Shares are listed on SGX-ST Main Board. We are currently seeking to have our Shares listed on the Main Board of the Hong Kong Stock Exchange in order to have dual primary listing status in both Singapore and Hong Kong. Our Directors consider that while it is important to maintain the Singapore listing status, it would also be beneficial for our Company and in the interest of our Shareholders as a whole to have our Shares listed in Hong Kong for the following reasons:

- (i) the stock markets in Hong Kong and Singapore attract different investors. The dual listing in Hong Kong and Singapore will likely provide our Company with ready access to two different equity markets;
- (ii) the Hong Kong Stock Exchange could offer us direct access to the international capital market, enhance our fund-raising capabilities and broaden our shareholder base. The Shanghai and Shenzhen Stock Connect program between Mainland China and Hong Kong also allows mainland investors, who are more familiar with our business and operations, to invest in us through such program upon qualification; and
- (iii) a listing status on the Hong Kong Stock Exchange will further enhance our business profile in Hong Kong and the PRC and thus strengthen our ability to attract new customers, business partners and strategic investors as well as to recruit, motivate and retain key management personnel for our Group's business.

### WAIVER APPLICATIONS

We have applied for, and the Stock Exchange has granted us, a number of waivers from strict compliance with the Hong Kong Listing Rules. For further details, please see "Waivers from Strict Compliance with the Hong Kong Listing Rules" in this Prospectus.

### RISK FACTORS

Our business may be materially and adversely affected by the following risks, among others: (i) we are subject to risks associated with changes in regulations and policies for wastewater treatment, river-basin ecological restoration, sponge city construction, reusable water, water supply, sludge treatment and disposal and wastewater source heat pump projects in the PRC; (ii) our operations are concentrated within Bohai Economic Rim and Yangtze River Delta, and the successful operation of our business depends heavily on the wastewater treatment projects we are involved in, and our business, financial condition, results of operations and prospects rely heavily on the economic development, social conditions, government creditworthiness, investment environment, government policies or environmental conditions in the PRC, especially in areas at which our projects are located; (iii) changes in the relevant 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

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## SUMMARY

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our results of operation and financial position; (iv) we require substantial funding for our projects, and failure to obtain adequate funding or refinance our existing debt at reasonable rates, or at all, could adversely affect our business, financial condition and results of operations, and could prevent us from fulfilling our financial obligations and business objectives; and (v) our projects are subject to construction and operational risks, including accidents, disruptions and delays. For further information, see “Risk Factors”.

### FUTURE PLANS AND USE OF PROCEEDS

We estimate that the net proceeds we will receive from the Global Offering (after deducting underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering) will be approximately HK\$321.6 million, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$3.67 per Share, being the mid-point of the Offer Price range of HK\$2.99 to HK\$4.35 per Share as stated in this Prospectus. If the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK\$56.1 million (after deducting underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$3.67 per Share, being the mid-point of the Offer Price range of HK\$2.99 to HK\$4.35 per Share as stated in this Prospectus. In order to further highlight and enhance core competitiveness, to improve profitability and subsequent development capacity, and to achieve our strategic goals, we currently intend to apply these net proceeds toward the development our pipeline projects and providing further liquidity for us, details of which are as follows (assuming the Over-allotment Option is not exercised):

- Approximately HK\$273.3 million, or 85% of the total estimated net proceeds, is expected to be used for expanding our market share in the PRC water industry and diversifying our project portfolio and creating synergies;
- Approximately HK\$32.2 million, or 10% of the total estimated net proceeds, is expected to be used for enhancing our core technologies through innovative research and development initiatives and acquisitions of advanced technologies;
- Approximately HK\$16.1 million, or 5% of the total estimated net proceeds, is expected to be used for working capital and other general corporate purposes.

For details, see “Future Plans and Use of Proceeds - Use of Proceeds”.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this Prospectus, there has been no material adverse change in our financial or trading position since December 31, 2018 and there has been no event since December 31, 2018 which would materially affect the information shown in the Accountants’ Report as set out in Appendix I to this Prospectus.

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## SUMMARY

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### RECENT DEVELOPMENT

On January 21, 2019, our Company has completed issuance to qualified investors in the PRC the Third Tranche Panda Bonds at an interest rate of 3.89%, which was listed for trading on the Shanghai Stock Exchange with effect from January 29, 2019. The corporate bonds bear a maturity period of five years from the issue date, and the bondholders have an option to sell the corporate bonds back to our Company after three years. The proceeds from the issuance of the Third Tranche Panda Bonds will be used for the replenishment of the general working capital of the subsidiaries of the Company.

### LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commissions and professional fees, and, assuming an offer price of HK\$3.67 per Share, being the mid-point of the proposed offer price range, are estimated to be HK\$60.0 million, assuming the Over-allotment Option is not exercised, of which HK\$31.7 million were recognized as expenses in our consolidated income statements for the year ended December 31, 2018. We expect HK\$18.4 million of the listing expenses to be recognized as expenses in our consolidated income statements during the year ending December 31, 2019 and the remaining HK\$9.9 million to be accounted for as a deduction from equity upon Listing. We do not expect these expenses to have a material impact on our results of operations for 2019. The Listing expenses above are the latest practicable estimate and are for reference only. The actual amount may differ from this estimate.



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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed "Glossary of Technical Terms".*

"13 <sup>th</sup> Five-Year Plan"	the PRC 13th Five-Year Plan for National Economic and Social Development adopted by the NPC in March 2016 for the period from 2016 to 2020
"Affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Application Form(s)"	<b>WHITE</b> application form(s) and <b>YELLOW</b> application form(s) or where the context so requires, any of them, that are used in connection with the Hong Kong Public Offering
"associate(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Audit Committee"	the audit committee of the Board
"Authority"	any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign
"BEWI"	Beijing Everbright Water Investment Management Co., Ltd., a wholly-owned subsidiary of our Company
"Bermuda Companies Act" or "Companies Act"	the Companies Act 1981 of Bermuda, as amended from time to time
"Bermuda Principal Registrar"	Conyers Corporate Services (Bermuda) Limited
"Board Lot"	means the board lot in which the Shares are traded on the Hong Kong Stock Exchange from time to time
"Board of Directors" or "Board"	the board of directors of our Company

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## DEFINITIONS

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“BOO”	build-operate-own, a project model in which an entity builds, owns and operates its facilities and assets with no obligation to transfer its ownership of the relevant facilities and assets to any specified parties at any time. For details regarding our BOO contractual arrangements, see “Business — Project Models — BOO Project Model”
“BOT”	build-operate-transfer, a project model in which an entity receives a concession from the public sector to finance, design, construct and operate a facility stated in the concession agreement for a definite period of time and transfer the facility and assets to the public sector after the completion of the concession period, at which point the obligation of the entity to operate the designed and constructed facility effectively terminates. For details regarding our BOT contractual arrangements, see “Business — Project Models — BOT Project Model”
“BT”	build-transfer, a project model in which an enterprise undertakes the financing, design and construction of a facility. Upon the completion of the construction, the relevant facilities will be transferred back to the proprietor for a pre-determined consideration
“Business Day(s)”	any day (excluding a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Bye-laws”	the bye-laws of our Company, as conditionally adopted on November 16, 2018 and effective from the Listing Date, and as amended from time to time, a summary of which is contained in Appendix III to this Prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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## DEFINITIONS

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“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CDP”	The Central Depository (Pte) Limited
“CE Environmental”	China Everbright Environmental Group Limited (中國光大環境集團有限公司), a company incorporated in Hong Kong with limited liability on April 8, 2016, and a wholly-owned subsidiary of CEIL
“CE Hong Kong”	China Everbright Holdings Company Limited (中國光大集團有限公司), a company incorporated in Hong Kong with limited liability on May 10, 1983, which is a wholly-owned subsidiary of China Everbright Group
“CEIL”	China Everbright International Limited (中國光大國際有限公司), a company incorporated under the laws of Hong Kong, the shares of which are listed on the Hong Kong Stock Exchange (stock code: 257), and our Controlling Shareholder
“CEIL Group”	CEIL and its subsidiaries, including our Group
“CEWHL”	China Everbright Water Holdings Limited (中國光大水務控股有限公司), a company incorporated in the BVI with limited liability on March 20, 2014, and a wholly-owned subsidiary of CEIL
“CEWIL”	China Everbright Water Investments Limited, a company incorporated in the BVI with limited liability on March 25, 2003, and a wholly-owned subsidiary of our Company
“ChinaClear”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)
“ChinaClear Stock Connect Implementing Rules”	The Implementing Rules for Registration, Depository and Clearing Services under Mainland-Hong Kong Stock Connect (《內地與香港股票市場交易互聯互通機制登記、存管、結算業務實施細則》) issued by ChinaClear

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## DEFINITIONS

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“China Everbright Group”	China Everbright Group Ltd. (中國光大集團股份公司), a company incorporated in the PRC with limited liability on November 12, 1990, which indirectly held 41.95% shares in CEIL as at the Latest Practicable Date
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this Prospectus, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“close associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), which came into effect on March 3, 2014, as amended from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended from time to time
“Company”, “Our Company” or “the Company”	China Everbright Water Limited (中國光大水務有限公司), formerly registered under the names Bio-Treat Technology Limited and HanKore Environment Tech Group Limited (漢科環境科技集團有限公司), an exempted company incorporated in Bermuda on August 22, 2003 with limited liability, the shares of which have been listed on the SGX-ST Main Board and has been registered in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules and, unless the context requires otherwise, refers to CEIL. Please see the section titled “Relationship with Controlling Shareholder” in this Prospectus for further details
“core connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules

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## DEFINITIONS

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“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules
“CPC”	the Communist Party of China
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
“Director(s)”	the director(s) of our Company
“EPC”	engineering-procurement-construction, a project model in which an enterprise is commissioned by a customer to design, procure and construct a project and be responsible for the quality, safety, timing and pricing of the project according to the contract terms
“EUR” or “Euro”	Euro, the lawful currency adopted by 19 member states of the European Union
“First Tranche Panda Bonds”	RMB-denominated corporate bonds of an aggregate principal amount of RMB1 billion issued by our Company to qualified investors in the PRC
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Government Grantor”	the party (generally government departments at or above the county level in the PRC or the designees of such local governments) granting concession rights to a grantee under service concession arrangement to develop or upgrade, operate and maintain its infrastructure assets during a concession period
“Group”, “our Group”, “us” or “we” or “our”	our Company and its subsidiaries and, where the context requires, in respect of the period before our Company became the holding company of any of its present subsidiaries, such present subsidiaries of the Company, the businesses carried on by such subsidiaries and (as the case may be) their predecessors
“HKFRS”	the Hong Kong Financial Reporting Standards, amendments and interpretations issued by the HKICPA
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited

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## DEFINITIONS

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“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong Share Registrar”	Boardroom Share Registrars (HK) Limited
“Hong Kong dollars”, “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Hong Kong Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with Growth Enterprise Market of the Hong Kong Stock Exchange
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offering”	the offer of Hong Kong Public Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus a brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this Prospectus and the Application Forms relating thereto, as further described in the section entitled “Structure of the Global Offering — The Hong Kong Public Offering”
“Hong Kong Public Offer Shares”	10,398,000 new Shares initially being offered by our Company for subscription pursuant to the Hong Kong Public Offering at the Offer Price, subject to any adjustment or reallocation as described in the section entitled “Structure of the Global Offering”
“Hong Kong Stock Exchange” or “SEHK”	The Stock Exchange of Hong Kong Limited
“Hong Kong Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended from time to time
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering as listed in the section headed “Underwriting — Hong Kong Underwriters” in this Prospectus

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## DEFINITIONS

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“Hong Kong Underwriting Agreement”	the underwriting agreement dated April 22, 2019 relating to the Hong Kong Public Offering entered into among our Company, the Controlling Shareholder, the Joint Sponsors, the Joint Representatives and the Hong Kong Underwriters, as further described in the section headed “Underwriting” in this Prospectus
“IAS”	International Accounting Standards
“IASB”	International Accounting Standards Board
“IFRS”	International Financial Reporting Standards promulgated by the IASB, including the International Accounting Standards and their interpretations and amendments
“independent third party(ies)”	any entity or person who is not a connected person within the meaning ascribed under the Hong Kong Listing Rules
“International Offer Shares”	93,572,000 new Shares initially being offered by our Company for subscription and purchase at the Offer Price under the International Offering, subject to any adjustment or reallocation together with, where relevant, any additional Shares which may be offered by the Company pursuant to the Over-allotment Option as further described in the section titled “Underwriting — Underwriting Arrangements and Expenses — The International Offering”
“International Offering”	the conditional placing of the International Offer Shares in offshore transactions outside the U.S. in reliance on Regulation S, including to professional investors in Hong Kong, as further described in the section titled “Structure of the Global Offering”
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement expected to be dated on or about the Price Determination Date relating to the International Offering expected to be entered into by, among others, the Joint Representatives (on behalf of the International Underwriters) and our Company, as further described in the section headed “Underwriting” in this Prospectus

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## DEFINITIONS

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“Joint Bookrunners”	China International Capital Corporation Hong Kong Securities Limited, China Everbright Securities (HK) Limited, CEB International Capital Corporation Limited, ABCI Capital Limited, CMB International Capital Limited and Shenwan Hongyuan Securities (H.K.) Limited
“Joint Lead Managers”	China International Capital Corporation Hong Kong Securities Limited, China Everbright Securities (HK) Limited, CEB International Capital Corporation Limited, ABCI Securities Company Limited, CMB International Capital Limited and Shenwan Hongyuan Securities (H.K.) Limited
“Joint Global Coordinators”	China International Capital Corporation Hong Kong Securities Limited, China Everbright Securities (HK) Limited and CEB International Capital Corporation Limited
“Joint Representatives”	China International Capital Corporation Hong Kong Securities Limited and China Everbright Securities (HK) Limited
“Joint Sponsors”	China International Capital Corporation Hong Kong Securities Limited and China Everbright Capital Limited
“Latest Practicable Date”	April 15, 2019, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information in this Prospectus
“Listing”	the listing of the Shares on the Hong Kong Main Board
“Listing Committee “	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about May 8, 2019, on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to take place on the Hong Kong Main Board
“Listing Manual”	the listing manual of the SGX-ST Main Board as may be amended from time to time
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company adopted on August 18, 2003, a summary of which is set out in Appendix III to this Prospectus and as amended from time to time



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## DEFINITIONS

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“MEP”	the Ministry of Ecology and Environment, formerly known as the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
“Ministry of Finance”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOHURD”	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房城鄉建設部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage fee, SFC transaction levy and Hong Kong Stock Exchange trading fee) at which the Offer Shares are to be subscribed pursuant to the Global Offering, as further described in the section titled “Structure of the Global Offering”
“Offer Share(s)”	the Hong Kong Public Offer Share(s) and the International Offer Share(s)
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters, exercisable by the Joint Representatives on behalf of the International Underwriters, pursuant to which our Company is required to allot and issue up to an aggregate of 15,595,000 Shares (representing in aggregate approximately 15% of the Shares initially being offered under the Global Offering) at the Offer Price to cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering” in this Prospectus
“Panda Bonds”	the First Tranche Panda Bonds, the Second Tranche Panda Bonds and the Third Tranche Panda Bonds
“PBOC”	People’s Bank of China
“PRC government” or “State”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them

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## DEFINITIONS

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“Price Determination Agreement”	the agreement to be entered into between our Company and the Joint Representatives on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about Monday, April 29, 2019 on which the Offer Price is fixed for the purposes of the Global Offering, and in any event no later than Monday, April 29, 2019, or such other date as agreed between parties
“Prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Regulation S”	Regulation S under the U.S. Securities Act
“Remaining CEIL Group”	the CEIL Group following the Listing, excluding our Group
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中國國家工商管理局)
“SAT”	the State Administration of Taxation of the PRC (中國國家稅務總局)
“SEC”	the United States Securities and Exchange Commission
“Second Tranche Panda Bonds”	RMB-denominated corporate bonds of an aggregate principal amount of RMB800 million issued by our Company to qualified investors in the PRC
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“SGX-ST”	Singapore Exchange Securities Trading Limited

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## DEFINITIONS

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“SGX-ST Main Board”	the Main Board of the SGX-ST
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	share(s) in the share capital of our Company with par value of HK\$1.00 each
“Singapore”	the Republic of Singapore
“Singapore Companies Act”	the Companies Act (Cap. 50) of Singapore, as amended from time to time
“Singapore dollars” or “SGD”	Singapore dollars, the lawful currency of Singapore
“Singapore Takeovers Code”	Singapore Code on Take-overs and Mergers
“Singapore Share Transfer Agent”	Boardroom Corporate & Advisory Services Pte. Ltd.
“Stabilizing Manager”	China International Capital Corporation Hong Kong Securities Limited
“Stock Borrowing Agreement”	the stock borrowing agreement, which may be entered into between CEWHL as the lender and the Stabilizing Manager as the borrower
“subsidiary(ies)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Taxation” or “Taxes”	all forms of taxation whenever created, imposed or arising and whether of Hong Kong, the PRC or of any other part of the world and, without prejudice to the generality of the foregoing, includes all forms of taxation on or relating to profits, salaries, interest and other forms of income, taxation on capital gains, sales and value added taxation, estate duty, death duty, capital duty, stamp duty, payroll taxation, withholding taxation, rates and other taxes or charges relating to property, customs and other import and excise duties, and generally any taxation, duty, impost, levy, rate, charge or any amount payable to taxing, revenue, customs or fiscal Authorities whether of Hong

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## DEFINITIONS

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	Kong, the PRC or of any other part of the world, whether by way of actual assessment, loss of allowance, withholding, deduction or credit available for relief or otherwise, and including any penalties and/or interest arising in respect of any taxation
“Technology and Design Center”	the combination of our technology center and the Xuzhou Design Institute upon completion of the acquisition of the Xuzhou Design Institute by our Company
“Third Tranche Panda Bonds”	RMB-denominated corporate bonds of an aggregate principal amount of RMB700 million issued by our Company to qualified investors in the PRC
“TOT”	transfer-operate-transfer, a project model whereby, pursuant to service concession arrangements entered into between an enterprise and a government, the government grants to the enterprise the right to operate and maintain an existing plant throughout the concession period, during which the enterprise can charge fees based on the services it provides to cover its costs of investment and operation while at the same time earning reasonable returns. Upon the expiration of the concession period, the relevant plant is transferred back to the government for nil consideration. For details regarding our TOT contractual arrangements, see “Business — Project Models — TOT Project Model”
“Track Record Period”	the three (3) years ended December 31, 2016, 2017 and 2018
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States,” “USA,” “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“USD” or “US\$”	U.S. dollars, the lawful currency of the United States of America

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## DEFINITIONS

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“VAT”	value-added tax; all amounts are exclusive of VAT in this Prospectus except where indicated otherwise
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“Xuzhou Design Institute”	Xuzhou Municipal Engineering Design Institute Co., Ltd., a company incorporated under the laws of the PRC on December 30, 1985, a wholly-owned subsidiary of the Company
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“%”	per cent

In this Prospectus:

- (a) unless expressly stated otherwise or required by the context, all data are as at the Latest Practicable Date;
- (b) certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them; and
- (c) if there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail. English translation of names of PRC nationals, enterprises, entities, departments, facilities, certificates, titles are for identification purposes only.

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanations of certain terms used in this Prospectus as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage.*

“AAO”	Anaerobic — Anoxic — Oxidic is a commonly used technique for wastewater treatment, including pretreatment, biological treatment, and biological and chemical post-treatment (after coagulation, sludge treatment, etc.)
“activated sludge”	a process for treating wastewater using air and a biological floc composed of bacteria and protozoa
“aerobic”	an environment in which oxygen is present or a process that occurs only in the presence of oxygen
“anaerobic”	an environment in which oxygen is absent or a process that occurs only in the absence of oxygen
“Bardenpho”	a type of biological nutrient removal (BNR) process, which is a popular choice for BNR of phosphorus and nitrogen
“biochemical treatment”	a method for treating wastewater by using biochemical methods
“BOD”	biochemical oxygen demand, which is the amount of dissolved oxygen consumed by microorganisms to break down organics present in a given water sample under certain conditions over a specific time period. It is widely used as an indication of the organic quality of water
“BNR”	biological nutrient removal
“CAGR”	compound annual growth rate
“Class I”	the treated wastewater standard as stipulated in the “Discharge Standard of Pollutants For Municipal Wastewater Treatment Plant” (GB 18918-2002), consisting Class I Standard A and Class I Standard B
“Class I Standard A”	the highest treated wastewater standard as stipulated in the “Discharge Standard of Pollutants For Municipal Wastewater Treatment Plant” (GB 18918-2002)

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## GLOSSARY OF TECHNICAL TERMS

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“Class I Standard B”	the second highest treated wastewater standard as stipulated in the “Discharge Standard of Pollutants For Municipal Wastewater Treatment Plant” (GB 18918-2002)
“Class II”	the third highest treated wastewater standard as stipulated in the “Discharge Standard of Pollutants For Municipal Wastewater Treatment Plant” (GB 18918-2002)
“COD”	chemical oxygen demand, a test commonly used to indirectly measure the amount of organic compounds in water
“COD <sub>Cr</sub> ”	the corresponding mass concentration of oxygen of the oxidant consumed when potassium dichromate is used to treat a given water sample under certain circumstances
“decanter”	a vessel or tank that is used to hold the decantation of a liquid (such as wastewater) which may contain sediment
“DO”	dissolved oxygen, a measure of free, non-compound oxygen present in water or other liquids, which is an important parameter in assessing water quality
“filtration”	commonly the mechanical or physical operation which is used for the separation of solids from liquid by interposing a medium through which only the liquid can pass
“m <sup>3</sup> ”	cubic meter
“Municipal Wastewater Discharge Standard”	The Wastewater Quality Standards for Discharge to Municipal Sewers (污水排入城镇下水道水质标准) (CJ343-2010) promulgated by the MOHURD, as amended, supplemented or otherwise modified from time to time
“NH <sub>3</sub> -N”	ammoniacal nitrogen, a measure of the amount of ammonia, a toxic pollutant, often found in wastewater
“operation treatment capacity”	daily design treatment capacity of facilities in operation, excluding the treatment capacity of facilities under construction or to be constructed
“oxidation ditch”	a method of treating sewage in large round or oval ditches with one or more horizontal aerators typically called brush or disc aerators, which drive the mixed liquid around the ditch and provide aeration

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## GLOSSARY OF TECHNICAL TERMS

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“pH”	a measure of the acidity or basicity of an aqueous solution
“PPP”	public-private partnership, a government service or private business venture that is funded and operated through a partnership involving government and one or more private sector companies, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project
“raw water”	untreated water from natural sources, such as rivers, lakes, pools or underground aquifers, which can be used directly for, among other things, industrial and irrigation use or used as tap water after purification
“reclaimed water”	collected rainwater, industrial drainage and domestic sewage, which, after proper treatment, meets the required water quality standards and can be reused as non-drinking water
“SBR”	sequencing batch reactor (SBR) is an activated sludge process designed to operate under non-steady state conditions, which operates in a true batch mode with aeration and sludge settlement both occurring in the same tank
“sedimentation”	settling of suspended solids in a fluid through the natural process of gravity
“SS”	suspended solids, which are small particles of solid pollutants that float on the surface of, or are suspended in, sewage or other liquids
“Standards for Drinking Water Quality (GB5749-2006)”	The Drinking Water Standard (生活飲用水衛生標準) (GB5749-2006), as amended, supplemented or otherwise modified from time to time
“surface water”	surface water is water on the Earth’s surface, such as in a stream, river, lake, wetland or ocean
“tap water”	water that meets relevant standards for human consumption after being purified and disinfected by water treatment plants
“tonne” or “ton” or “tons”	Metric tonne



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## GLOSSARY OF TECHNICAL TERMS

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“TN”	total nitrogen, the sum of nitrate-nitrogen (NO <sub>3</sub> -N), nitrite-nitrogen (NO <sub>2</sub> -N), ammonia-nitrogen (NH <sub>3</sub> -N) and organic nitrogen in wastewater
“TP”	total phosphorous, a measure of the remaining dissolved phosphate plus any insoluble phosphorous carried over into wastewater
“utilization rate”	average treated or supplied volume / designed capacity x 100%
“utilized capacity”	the actual daily volume of water supplied or wastewater treated, as applicable
“wastewater”	water that has been used for domestic or industrial purposes, which may contain organic and inorganic pollutants, bacteria, dissolved and/or suspended solids
“wastewater treatment”	use of chemical and biological processes to remove pollutants from wastewater before discharging it into a water body or reclaiming it for re-use
“WTE”	waste-to-energy

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## FORWARD-LOOKING STATEMENTS

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This Prospectus contains forward-looking statements that relate to our current expectations and views of future events. The forward-looking statements are contained principally in the sections entitled “Summary,” “Risk Factors,” “Future Plans and Use of Proceeds,” “Industry Overview,” “Business” and “Financial Information”. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section entitled “Risk Factors,” which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements.

The words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and initiatives, as well as our business plans;
- our future business development, results of operations and financial condition;
- expected changes in our revenue and certain cost or expense items;
- expected trends and changes in governmental policies relating to our business and industry;
- our expectations with respect to increased revenue growth and our ability to sustain profitability;
- our dividend distribution plans;
- trends and competition in China’s water industry in general and wastewater treatment, water environment treatment in particular; and
- changes in the general economic, regulatory and operating conditions in the markets in which we operate.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section entitled “Risk Factors”.

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## RISK FACTORS

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*You should carefully consider all of the information in this Prospectus, including, but not limited to, the risks and uncertainties described below when considering making an investment in our Shares. Our business, financial condition and results of operations could be adversely affected by any of these risks and uncertainties. You should pay particular attention to the fact that our principal business is located in the PRC and we are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. The trading price of our Shares may decline due to any of these risks and uncertainties, 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 conducting business in the PRC; and (iii) risks relating to the Listing and our Shares. You should consider our business and prospects in light of the challenges we face, including those discussed in this section.

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

**We are subject to risks associated with changes in regulations and policies for wastewater treatment, river-basin ecological restoration, sponge city construction, reusable water, water supply and wastewater source heat pump projects in the PRC.**

We operate in an industry in which applicable laws, regulations and government policies play a critical role in influencing the demand and returns for our services. Any changes in legislative, regulatory or industrial requirements could render certain of our projects or related technologies obsolete or financially unfeasible for us to operate, which in turn could have a material and adverse impact on our business, financial condition, results of operations and prospects.

Our concession agreements with the local government authorities generally provide that the treated wastewater discharged, the residue of our sludge treatment disposed of or the water supplied should meet the applicable national standards as set forth by relevant rules and regulations. If there are any changes in law, regulation or policy that impose more stringent standards in relation to these projects, we may need to invest in the development of new technologies, upgrade existing technologies or upgrade existing equipment and facilities. Such technological modification or upgrade could require more financial, technological and operational resources. We cannot assure you that we can always comply with new standards in a timely manner, or at all. If we are unable to develop or source new solutions to keep up with such technological changes in a timely manner or at reasonable costs, we may not be able to maintain our competitive edge and our market share and profits may be adversely affected.

In recent years, the PRC government has adopted various policies favorable to the environmental protection industry, which provide a clearer, more detailed and standardized structure on the macro level and sub-areas for the management and protection of the ecological environment, and has stated its intentions to increase spending in such industry. These policies include the Water

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## RISK FACTORS

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Pollution Prevention and Control Plan for Major River Basins (2016-2020) (《重點流域水污染防治規劃(2016-2020)》), the newly amended Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), the Action Plan to Prevent and Control Water Pollution (《水污染防治行動計劃》), the Special Plan on Scientific and Technological Innovation in Environmental Sector for the 13<sup>th</sup> Five-Year Plan Period (《“十三五”環境領域科技創新專項規劃》), the Belt and Road Ecological and Environmental Cooperation Plan (《“一帶一路”生態環境保護合作規劃》), the Ecological Environmental Management Plan for the Yangtze River Economic Belt (《長江經濟帶生態環境保護規劃》), the 13<sup>th</sup> Five-Year Plan for Economic and Social Development of the People’s Republic of China (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》), Opinions of the CPC Central Committee and the State Council on Accelerating the Ecological Civilization Construction (《中共中央國務院關於加快推進生態文明建設的意見》) and the “13th Five” Construction Plan of Municipal Wastewater Treatment and Recycling Facilities (《“十三五”全國城鎮污水處理及再生利用設施建設規劃》). However, we cannot assure you that the PRC government will indeed execute such plans and policies, or that these policies will be implemented within the time frame or in the manner intended. In addition, we cannot predict the precise impact of these policies on specific industry sectors or local markets in which we operate. If the PRC government withdraws or suspends the execution of its plans and policies favorable to the industry in which we operate in the future, our growth and prospects could be materially and adversely affected.

In addition, if our business operations fail to comply with any applicable laws or regulations, we may be subject to fines or other administrative penalties, and incur substantial expenses to mitigate, remedy or rectify such non-compliance, and our reputation may be damaged accordingly. This may in turn have an adverse effect on our business, financial condition, results of operations and prospects.

**Our operations are concentrated within the Bohai Economic Rim and Yangtze River Delta, and the successful operation of our business depends heavily on the wastewater treatment projects we are involved in, and our business, financial condition, results of operations and prospects rely heavily on the economic development, social conditions, government creditworthiness, investment environment, government policies or environmental conditions in the PRC, especially in areas where our projects are located.**

For the years ended December 31, 2016, 2017 and 2018, our revenue derived from our wastewater treatment business accounted for 97.6%, 64.9% and 74.7% of our total revenue. As at the Latest Practicable Date, we had 86 projects in operation, out of which 36 are located in Shandong Province and 22 are located in Jiangsu Province. As at the Latest Practicable Date, we had 13 projects under construction, out of which eight are located in Shandong Province and three are located in Jiangsu Province. While we will continue to grow our operations outside the Bohai Economic Rim and Yangtze River Delta, we expect a substantial portion of our revenue will continue to be derived from our operations in the Bohai Economic Rim and Yangtze River Delta in the near future. If we encounter difficulties in the construction, operation or expansion of our projects, particularly our projects in the Bohai Economic Rim and Yangtze River Delta, our business, financial condition, results of operations and prospects may be adversely affected.

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Each of our projects is local in nature. The investment returns from each of our projects may differ significantly based on the regions at which they are located as well as the local governments' financial budgets, creditworthiness, spending policies and development plans and priorities. Accordingly, our business in one or more regions or local markets may be adversely affected by events, economic conditions and changes in local governmental policies relating to those regions or markets. In addition, there is no assurance that we can achieve favorable investment returns in any new market we are entering or plan to enter in the future. Furthermore, natural disasters or human impact on the environment could affect our ability to successfully construct, operate and expand our projects, as a result of which, our business, financial condition, results of operations and prospects could be materially and adversely affected.

**Changes in the relevant 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 to our service concession arrangements. These standards may be changed or amended from time to time in the future. Any changes in these accounting standards may result in changes in the recognition, measurement and/or classification of our revenue, expenses, assets and liabilities that could have material impact on our results of operation and financial position. Moreover, in the application of these accounting standards, we are required to make judgments, estimates and assumptions with respect to our revenue, expenses, assets, liabilities, as well as the cash flow projections of our projects. These estimates and assumptions are not readily apparent from other sources and are based on historical experience and other factors that we consider to be relevant. For more information on the accounting treatment of our projects accounted for as service concession arrangements, including the nature of construction revenue, operation revenue, and financial income, see "Financial Information — Factors Affecting Our Results of Operations — Impact of the accounting treatment for service concession arrangements". We cannot assure you that our estimates and assumptions can always be accurate. Should actual results be different from these estimates and assumptions, we may have to make necessary changes and adjustments to the relevant policies governing these estimates and assumptions, which could materially and adversely affect our results of operation and financial position.

**There is a mismatch between our revenue and the underlying cash flows for our projects accounted for as service concession arrangements. In addition, the business models we adopt can adversely affect our financial performance and liquidity position.**

We use different business models for our service concession arrangement projects and for most of our service concession arrangement projects, we adopted the BOT and TOT project models. The differences in business models can affect our revenue and cost recognition, gross profit margin and cash flows. For example, we recognize revenue from BOT projects during both the construction and the operational phases of the projects. However, while we recognize construction revenue for the BOT projects, we actually do not receive any cash payment for our construction services during construction phase. The actual cash inflow for our construction revenue from our BOT projects is

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received at a later stage in the form of cash tariff payments during the operation phase of the relevant BOT projects over the stipulated concession periods. Therefore, there is a mismatch between our revenue and the underlying cash flows for such projects, and it may take up to 30 years to settle the mismatch. Thus, when we have projects in the construction phase, we may need to rely on our internal resources and external financing to supplement cash flows from operations so as to meet our payment obligations in full and on time. If we fail to secure sufficient external financing or generate sufficient cash from our operations to finance our projects, or if our finance costs increase materially, our business, financial condition, results of operation and prospects may be materially and adversely affected. In contrast, for our TOT projects, we recognize revenue only when we provide services during the operational phase and we normally expect to receive cash flow that matches the recognized revenue. For projects not accounted for as service concession arrangements, we recognize revenue only when the related services are rendered during the operation phase.

Additionally, we may not receive sufficient cash payments from projects for which construction revenue had been recognized, if the relevant project does not materialize or if the actual cash receipts in the operation phase of the project are significantly smaller than expected. In such case, we may need to recognize impairments or write-offs in the subsequent periods for the related intangible assets or service concession financial receivables. For the accounting treatment of revenue generated from our construction services in connection with projects accounted for as service concession arrangements and how such revenue is recorded as “service concession financial receivables” and “intangible assets” in our statement of financial position, see “Financial Information — Factors Affecting Our Results of Operations — Impact of the accounting treatment for service concession arrangements”. We cannot assure you that impairments or write-offs will not occur in the 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.

Meanwhile, due to varied profit margin of different phases of BOT projects, our overall profit margin, which takes into account of our profit margins from different business model, may be affected during the construction phase of BOT projects. Should we undertake more BOT projects in the future, it could result in a cash flow mismatch as we may not have the cash inflow matching the revenue recognized during the construction phase of our BOT projects, and our overall profit margin may also be affected.

**We require substantial funding for our projects. Any failure to obtain adequate funding or refinance our existing debt at reasonable rates, or at all, could adversely affect our business, financial condition and results of operations, and could prevent us from fulfilling our financial obligations and business objectives.**

Maintaining our competitiveness and implementing our growth strategies both require us to have sufficient capital resources. Our structures, buildings, facilities, equipment and projects typically

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require significant initial cash outlays. We require a considerable amount of capital to purchase property, structures, buildings, facilities and equipment to construct, upgrade and operate facilities of our wastewater treatment, water environment treatment and other line of business and to fund future acquisitions. For the years ended December 31, 2016, 2017 and 2018, our capital expenditures, which included consideration paid for acquisitions of subsidiaries and TOT projects, construction cost incurred for BOT projects, additions of property, plant and equipment and intangible assets (excluding concession rights), were HK\$1,276.5 million, HK\$1,922.7 million and HK\$2,247.4 million, respectively. As at the Latest Practicable Date, we had 13 projects under construction, in which we had made or were committed to make significant investments. We also expect to incur significant capital expenditure for our current and future projects that are held for future development. For details, see “Financial Information — Capital Expenditures and Investment”. In addition, we are responsible for the cost of operations, repairs and maintenance during the life of these plants structures, buildings, facilities or equipment or, with respect to the BOT and TOT projects, the respective concession periods. Expenses in connection with any major overhaul, renovations, remodeling or upgrade of our existing structures, buildings, facilities or equipment could be substantial.

We make significant investments in our projects prior to the commencement of construction and our acquisitions as we acquire land use rights, construct facilities and purchase property, plant and equipment. The project construction phase typically lasts approximately several months and up to three years. For our structures, buildings, facilities or equipment and projects based on the BOT and BOO project models, we pay construction costs during the course of construction. We typically receive no payment from our customers before or during the construction phase of our plants and projects based on the BOT and BOO models, during which period we are required to make substantial capital investments. For our TOT projects, we are required to make substantial capital investments during the initial transfer phase of the project. In addition, during the operation phase of structures, buildings, facilities or equipment and projects based on the BOT, TOT and BOO project models, we are responsible for the cost of operation, maintenance and repair of the treatment plants during the relevant concession term. Usually, we receive payment from our customers over a period of 20 to 30 years in respect of our structures, buildings, facilities or equipment and projects based on the BOT, TOT and BOO project models, and payments for these structures, buildings, facilities or equipment and projects under BOT and BOO models only begin upon completion of construction and commencement of commercial operations.

We rely on the timely receipt of payment from our customers, which are usually the local governments to meet our working capital needs and to recover our development, investment costs and service debt. During the Track Record Period, we also received government grants and government subsidies of a non-recurring nature as financial incentives to encourage our development and investment of our projects in the PRC. For details, see “Risk Factors — Risk Relating to Our Business and Industry — The government grants and government subsidies received by our Group during the Track Record Period were non-recurring in nature”. However, there is no assurance that the relevant local governments will make payments on time as a result of various factors beyond our control, such as adverse changes in economic conditions, unexpected changes in water pollution that affect the quality of our services or changes in government policy. Failure to receive payment in a timely manner, or at all, from local governments could cause us to breach our financing agreements.

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We rely in part on external sources of funding, including bank borrowings and other sources, including issue of debt securities, to fund the acquisition, construction, renovation and operation of our projects. During the Track Record Period, we entered into various loan agreements for project development or acquisitions and we expect to continue this practice in the future. As of December 31, 2016, 2017 and 2018 and February 28, 2019, our Group's total borrowings were HK\$4,887.5 million, HK\$6,631.8 million, HK\$7,600.8 million and HK\$8,746.5 million, respectively. As of December 31, 2018, 28.4% of our borrowings were repayable within one year. In July 2017, we issued the First Tranche Panda Bonds with a principal amount of RMB1 billion, bearing a coupon rate of 4.55% for a five-year maturity. In August 2018, we issued the Second Tranche Panda Bonds with a principal amount of RMB800.0 million, bearing a coupon rate of 4.60% (with respect to the type 1 bonds) and of 4.58% (with respect to the type 2 bonds) for a five-year maturity. In January 2019, we issued the Third Tranche Panda Bonds with a principal amount of RMB700.0 million, bearing a coupon rate of 3.89% for a five-year maturity. As of December 31, 2016, 2017 and 2018, our gearing ratio were 68.0%, 77.6% and 87.7%, respectively. For details, see "Financial Information — Indebtedness" and "Financial Information — Financial Ratios". Our ability to obtain external funding depends on many factors, including regulatory approvals required to obtain financing in the domestic or international markets, our financial condition, results of operations, cash flows and credit history, restrictive covenants under our existing debt instruments, general economic and capital market conditions, general conditions in our industry, economic conditions in the geographic areas of our proposed projects, government policies with respect to bank lending practices and conditions, the availability of credit from banks and other lenders and the performance of our operational projects. We cannot assure you that external funding will be available to us in the future on acceptable terms or at all. Failure to obtain sufficient funding for our projects may delay the implementation of our projects, expose us to potential penalties under concession agreements and delay the completion of construction or restoration or commencement of operation, which could adversely affect our business, financial condition, results of operations and prospects.

In addition, under the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects (Guo Fa [1996] No.35) (《國務院關於固定資產投資專案試行資本金制度的通知》(國發[1996]35號)) promulgated and implemented by the State Council on August 23, 1996, investors must contribute a certain proportion of capital as the project company's capital funds. The proportion of such contribution in wastewater treatment must be no less than 20% of the total project investment amount. For details, see "Regulatory Overview — Capital Fund System". If we fail to generate sufficient cash from our operations, we may not have sufficient funds to finance the required portion to be contributed by us for our projects. In addition, if we incur substantial amounts of additional debt, our finance costs may increase substantially, which could have a material impact on our business, including increasing our vulnerability to general economic and industry conditions, requiring us to dedicate a substantial portion of cash flow to servicing our debt, limiting our flexibility in planning, and further increasing the costs of additional finance. In addition, we have in the past raised funding by issuing debt. We cannot assure you that we will be able to obtain similar funding in the future on acceptable terms or at all. If we fail to generate sufficient cash from our operations or obtain sufficient funding from the issuance of debt to finance our projects, or if our finance costs increase materially, our business, financial condition, results of operations and prospects may be materially and adversely affected.



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**Failure to obtain or renew the approvals, permits, licenses and certificates or complete the environmental impact assessment required for the construction, operation of our projects could result in fines or other administrative penalties as well as disruption to our operations and growth plan.**

We are required to obtain certain approvals, permits, licenses and certificates, including the relevant concession rights, from various competent government authorities and complete the environmental impact assessment in order to develop and operate each of our projects according to relevant PRC laws and regulations. Details of the approvals, permits, licenses and certificates we are required to obtain or maintain are set out in “Regulatory Overview — Business Qualifications and Licenses” and “Business — Licenses and Permits”. We cannot assure you that all of these required approvals, licenses, permits and certificates will be obtained or completed in a timely manner, or at all. Failure to obtain such approvals, permits, licenses and certificates in a timely manner, or at all may be caused by governmental issues, which are beyond our control. As at the Latest Practicable Date, we had failed to obtain construction land use planning, construction planning and/or construction work commencement permits and/or did not complete the relevant completion inspection and acceptance formalities for some of our projects. Under relevant PRC laws and regulations, the government authorities could impose fines or cessation orders on the operation and construction of these projects. For descriptions of non-compliance incidents, see “Business — Non-Compliance”. We cannot assure you that all of these required approvals, permits, licenses, certificates, such as construction planning certificates, and the environmental impact assessment, can be obtained or completed in a timely manner or at all.

In addition, some of these approvals, licenses, 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, licenses and certificates. Any such failure could subject us to fines or other administrative penalties, including the suspension or shutdown of our operations, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

**Certain defects in titles with respect to the properties occupied by us under certain service concession arrangements may materially and adversely affect our ability to use such properties and in turn affect our business, financial condition and results of operations.**

As of the Latest Practicable Date, we occupied certain land and buildings under service concession agreements, pursuant to which the relevant land use right certificates are expected to be obtained by the Government Grantors who had not yet obtained such certificates. See “Business — Properties” for further details. We cannot assure you that the lack of land use right certificates will not subject us to actions by the relevant PRC government authorities, including, but not limited to, returning the land we occupy, ceasing the construction work on such land, confiscation of the buildings and structures on such land as stipulated under relevant PRC laws and regulations. As a

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result, our business, financial condition and results of operations may be materially and adversely affected.

In addition, as advised by our PRC Legal Advisor, should we suffer any losses or damages due to lack of land use right certificates or building ownership certificate under our service concession arrangements, we cannot assure you that any legal proceeding that we bring against the Government Grantors will reach a favorable outcome for us.

**We may not be able to adjust the tariff or unit price charged for our services in a timely manner to fully reflect any increase in the actual costs of our service concession arrangement projects. In addition, the price for tap water supply is controlled and adjusted from time to time by the competent government authorities and we do not have control over such prices or adjustments.**

The tariff or unit price for the wastewater treatment processes applicable to our wastewater treatment plants were individually negotiated with the relevant local government authorities. Our service concession arrangements contain provisions specifying the circumstances under which we can propose adjustments to the tariffs or unit price we charge, including, but not limited to, inflation, changes to benchmark interest rates on loans or utilities charges, and changes in relevant regulations with regard to incoming wastewater and sludge to be treated and the quality standards for treated wastewater and sludge. These proposals are subject to the approval of the relevant local government authorities. As such, we do not have total control over such price. The relevant local government authorities may, if they deem appropriate taking into account the circumstances set out in our service concession arrangements, demand a reduction of the tariff or unit price of our wastewater treatment service for public welfare. For details, please see “Regulatory Overview — Pricing”. Our service concession arrangements typically provide for periodic assessments of the tariff or unit prices based on the adjustment formulas specified in the relevant service concession arrangements. However, we cannot assure you that the relevant government authorities will conduct these reassessments and increase the tariff or unit prices in a timely manner or that the increased tariffs or unit prices will sufficiently compensate us for our increased costs. Furthermore, we cannot assure you that the local governments will have sufficient funds to pay for any increase in the tariff or unit price or will not reduce the tariff or unit prices in circumstances for public welfare or where the relevant benchmark prices or key cost indices decrease. There can be no assurance that our actual expenditures will not exceed the expected tariff amount due to reasons beyond our control. If we incur significantly higher operating costs without a corresponding increase in tariff or unit prices or if a reduction in tariff or unit price occurs, or if the local government authorities reduces the tariff or unit price of our future projects, we may be unable to sustain our profitability or may even incur a loss, and our financial condition and results of operations may be materially and adversely affected.

In addition, according to the PRC pricing law, the PRC government may direct, guide or fix the prices of public utilities that are important for public welfare. The NDRC sets the guideline prices for water supply, and makes adjustments to such prices from time to time. In addition, the unit procurement price for raw water is also set by the relevant local government authorities. For details, see “Regulatory Overview — Pricing” and “Business — Customers and Pricing — Pricing”. Our

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revenue and gross profit margin in our reusable water and tap water supply businesses are directly impacted by the price for reusable water and water supply and the unit procurement price for raw water, over which we do not have control. Any reduction in the price for tap water supply by the relevant local government could adversely affect our financial condition and results of operations. If there is any increase in our actual costs in relation to our water supply, there is no guarantee that the relevant local government would adjust in a timely manner the price for tap water supply or the procurement price for raw water to fully reflect such increase. The occurrence of the foregoing could adversely affect our financial condition and results of operations.

**We are subject to environmental risks and could be liable for environmental damages resulting from our services.**

We are exposed to environmental risks due to the nature of our operations. Challenging environmental issues could arise from time to time in the future, which could affect our profitability and our ability to pay dividends. Environmental risks could result in alleged violation of such environmental laws or regulations, which may result in penalties or fines levied against us or damage to our reputation. Violation of environmental laws may occur due to factors outside of our control, such as the incoming wastewater being affected resulting in the pollutants exceeding the standard contemplated in our design or agreed under the relevant agreements (certain pollutant levels may exceed the required standards notwithstanding the efforts of the wastewater treatment plants), damages to third party pipelines resulting in leakage of wastewater, or the failure of our employees to follow instructed procedures. Although our water supply plants are not yet in operation, the water supply to our water supply plants, once commenced commercial operation, will also be at risk of water shortages caused by prolonged periods of drought. If there are supply shortfalls caused by prolonged periods of drought, we may incur additional costs in order to provide emergency reinforcement of supplies to areas facing shortage. Restrictions on water use may adversely affect sales revenue for water supply from metered customers.

In addition, we could be liable if our wastewater treatment, sludge treatment, reusable water treatment or water supply plants cause environmental damage to nearby properties or residents. Any substantial liability for environmental damage could have a material adverse effect on our operating results and financial condition. Furthermore, in the ordinary course of our business, we may become involved in a variety of legal and administrative proceedings relating to environmental laws and regulations. These may include proceedings in which:

- agencies of local, provincial or state governments seek to impose liability on us under applicable statutes, sometimes involving civil or criminal liabilities for violations, or to revoke or deny renewal of a permit which we need. During the Track Record Period, our Inner Mongolia Tongliao Development Zone Waste Water Treatment Project and Qingdao Waste Water Treatment Project (Maidao Plant) received administrative penalty and fines as a result of an excessive discharge of pollutants. For details, see “Business — Legal Proceedings”; and

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- citizen groups, nearby residents or governmental agencies oppose the issuance or renewal of a permit or approval we need, allege violations of the permits under which we operate or laws or regulations to which we are subject, or seek to impose liability on us for environmental damage for which we may be responsible.

Any adverse outcome in one or more of these proceedings could have a material adverse effect on our business, financial condition and results of operations.

**Our projects are subject to construction and operational risks, including accidents, disruptions and delays.**

During the construction and operation of a project, risks that are difficult to quantify at the beginning of the project may cause our actual revenue, construction costs, restoration costs and operational costs to deviate significantly from our initial estimates and may result in losses.

In addition, the construction, restoration and operation of our projects, including any new project that we undertake, could be adversely affected by a number of factors which are commonly associated with the construction of infrastructure projects and which may be beyond our control, including, but not limited to, the following:

- the design institutes and/or contractors hired by us may not be able to complete the design, construction, installation or restoration work for our projects on time, within budget or to the specifications or standards set out in our contracts with them;
- local governments may refuse to accept, or may delay the acceptance of, our constructed or acquired plants or facilities into the coverage of the relevant service concession arrangements due to disputes with us with respect to the quality of the plants or facilities;
- the failure or malfunction of the equipment installed in our projects resulting in our failure to treat wastewater, sludge, treated water from wastewater treatment plants or raw water to the applicable standards, which could in turn result in a default under the relevant concession agreements;
- we may not be able to accurately estimate the pollutant levels in the wastewater, sludge, treated water from wastewater treatment plants, raw water entering our treatment plants, or in the river-basin to be restored;
- unforeseen engineering, design, environmental or geological problems;
- cost overruns during the construction as a result of a number of factors, many of which are beyond our control, such as increases in raw material prices or the failure of equipment vendors to perform their contractual obligations;

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- shortages of, and price increases in, equipment, materials or labor;
- labor shortages or disputes;
- changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our projects;
- accidents during the construction or operation of our plants and facilities;
- delays due to extreme adverse weather conditions, fires, typhoons, earthquakes or other natural disasters;
- our raw material suppliers and the suppliers to our contractors for our projects may not supply the required raw materials or equipment in a timely manner or in the expected quantities/quality or at all;
- governmental or other statutory approvals or other approvals that are required for the construction, completion, expansion or operation of our projects may be delayed or denied;
- delays in the completion of construction or the commencement of commercial operation could increase the financing costs associated with the construction; and
- other unanticipated circumstances or cost increases.

Any such factors could give rise to delays or cost overruns and any insurance coverage or liquidated damages or claims that we have may not be adequate to compensate us for these costs. If we are not able to timely mitigate the impact of these factors, our business, financial condition, results of operations and prospects could be materially and adversely affected. In addition, we cannot assure you that the construction and operation of our projects will be successful. We may not achieve the expected economic benefits from our projects and the failure to obtain the expected economic benefits could materially and adversely affect our business, financial condition and results of operations.

**Negative public response to the wastewater treatment business, sludge treatment business and water environment treatment business in general or our projects specifically may adversely affect our business.**

Recent social demonstrations illustrated a growing challenge in the PRC to the construction of large treatment projects when local residents perceive pollution risks as well as concerns about local economy, land use, corruption and governmental transparency. For example, we have received complaints from local residents in relation to odor emission from our Siergou Waste Water Treatment Plant in Liaoning. These complaints were ultimately addressed by our deodorizing facilities. We

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cannot assure you that negative public response or otherwise will not happen in the future and our business operations will not be disrupted by any such complaints or objection, which would, among others, negatively affect our corporate image and reputation. We have implemented public outreach programs including publicly disclosing environmental protection and pollutant emission information and inviting local residents to participate in our facility tours. However, there can be no assurance that these measures will successfully prevent any future protests against our plants or facilities. In the event of any complaints and negative publicity against our plants or facilities, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**Our business relies heavily on technologies and techniques that are subject to continuous changes. As a result, we cannot assure you that our research and development initiatives will continue to enable us to remain competitive or that we will be able to continue to use or commercialize all of the technologies we currently use.**

Our continued success and competitiveness in our industry depend on our ability to develop and improve our technologies and techniques. These technologies and techniques are subject to continuous evolution and changes. We cannot assure you that we will be able to keep up with changes in technology and techniques in a timely manner or at a reasonable cost.

Changes in governmental regulations and industry standards may impose more stringent performance or environmental requirements with respect to operating efficiency, emissions and discharge which may require us to adopt new technologies, perform equipment upgrades, or improve our existing technologies. In particular, stricter standards imposed by the PRC government for treated wastewater discharged (also known as tailwater) may entail the utilization of better equipment and treatment techniques. Such changes could require substantial investments and increase our operating and research and development costs. We may adopt advanced technologies, including mature technologies available overseas, that turn out not to be suitable or optimal for us due to unexpected raw material conditions, mix and characteristics or wastewater, sludge, raw water or river-basin characteristics in the PRC or regions where we operate, or we may have to invest in research and development efforts to test, modify and customize such technologies for local conditions. If we are unable to continue developing our technologies and techniques or if there are fundamental technological changes in the industry to which we cannot adapt, we may be unable to remain competitive in our industry. Furthermore, if a third party successfully obtains intellectual property rights to an industrial know-how which we are using but is not protected by any intellectual property rights of our own, we may need to obtain licenses to use such know-how in the future. Any of these events could adversely affect our business, financial condition and results of operations.

During the Track Record Period, our research and development was conducted by Everbright Water Technology Development (Nanjing) Limited (光大水務科技發展(南京)有限公司) and Everbright Water (Shenzhen) Limited, which develop environmental technologies including industrial wastewater treatment technology, sludge treatment technology, wastewater source heat pump technology and decentralized household wastewater treatment technology by importing and assimilating new technology from overseas and through joint development. We may incur significant

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research and development costs and may not be able to successfully commercialize our research and development results. Any of the foregoing may adversely affect our business, financial condition, results of operations and prospects.

In addition, we may need to utilize other technologies developed by third parties in the future. If the legal owners of such technologies do not wish to license such technologies to us on commercially acceptable terms or at all, we may be required to develop or license alternative technologies, which may involve considerable time and cost. We cannot guarantee that we would be able to develop or obtain the license of such technologies in a timely manner, at a reasonable cost, or at all, which would have an adverse effect on our ability to operate our projects, and as a result, affect our financial condition and results of operations.

### **Failure to achieve sufficient utilization of our facilities may adversely affect our earnings.**

Each of our projects has been or will be built to a specified designed capacity in accordance with the terms of the relevant agreements with our customers. For details, see “Business — Utilization Rate”. A number of factors may affect the utilization of our facilities, including the efficiency of the facilities, the local population size, the types of industries in the area, the level of urbanization, the construction progress of the relevant pipeline network, for which the government is responsible, and its sophistication, access to a pipeline network, and the general economic conditions in the areas serviced by the relevant facilities. For example, due to the problematic pipeline network of the local government, the utilization rate of our Ju County Shudong Waste Water Treatment Project only reached approximately 35% in December 2018. Utilization could also be affected by damage, overhaul or regulatory inspections, whether scheduled or ad hoc. We cannot assure you that the facilities we operate will be able to achieve the forecast utilization of their capacity, which may affect our business, financial condition, results of operations and prospects.

In addition, our decision to enter into a project agreement may depend in part on our expectation of future increases in the wastewater, sludge or treated water from wastewater treatment plants or quantity of reusable water or water to be supplied, which may not be realized. Moreover, in most of our wastewater treatment projects, we are entitled to charge fees based on a guaranteed minimum volume if the utilized capacity is below such guaranteed minimum volume. Under a guaranteed minimum volume arrangement, if the treatment or supply volume is less than the guaranteed minimum volume set out in the relevant service concession agreements, we are entitled to charge a tariff based on the guaranteed minimum volume rather than the actual volume of wastewater treated. For details, see “Business — Key Terms of Our Service Concession Arrangements — Guaranteed Minimum Volumes (applicable to the BOT and TOT project models)”. However, we cannot assure you that our customers will not request us to change the guaranteed minimum volume if there is a significant reduction in demand for our services or if the amount of the incoming wastewater is significantly below the guaranteed level. Any reduction in the guaranteed minimum volume of wastewater to be treated could have a material and adverse effect on our business, financial condition, results of operations and prospects.

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**Our inability to maintain our competitiveness could materially and adversely affect our business, financial condition and results of operations. As a result, we may not be able to successfully acquire, secure, develop and operate new projects to maintain and grow our business.**

Our industries are highly fragmented and competitive, with a large number of service providers operating throughout the PRC. We compete primarily with state-owned, privately owned and foreign owned wastewater treatment, sludge treatment and disposal, water environment treatment, water supply, reusable water and wastewater source heat pump companies in the PRC and new entrants to the market, some of which may possess relative advantages in terms of cost structure, customer base, technologies, government relationships, experience or resources, making them more capable of competing with our business. High degrees of competition may require us to enter into agreements with terms less favorable to us than the terms of agreements we have entered into in the past and, as a result, could have an adverse effect on our financial condition and results of operations. For more information about our major competitors, see “Business — Competition”. We cannot assure you that we will be able to compete successfully with our competitors in our existing or future markets. Moreover, due to the rapid growth of our industry recently, and the potential growth of the industry in the near future, failure to maintain competitiveness could severely impact our ability to expand or maintain our market position, increase our market share, or promote our brands, which may materially and adversely affect our business, financial condition, results of operations and prospects. Furthermore, when we enter a new market, we may face intense competition from other wastewater treatment, sludge treatment and disposal, water environment treatment, water supply, reusable water and wastewater source heat pump operators with an established presence in the relevant geographical areas and from other operators with similar expansion targets. We cannot assure you that we will be able to successfully compete to expand into other parts of the PRC or overseas. Failure to maintain our competitiveness and any increase in competition may materially and adversely affect our business, financial condition, results of operations and prospects.

In addition, if we fail to maintain our competitiveness, we may not be able to successfully acquire, secure, develop and operate new projects to maintain and grow our business. Our future growth largely depends on our ability to acquire, secure, develop and operate new projects. We also plan to deploy more resources and expand our presence in those regions where we currently have projects. In regions where demand for wastewater treatment is growing, we plan to expand our geographic footprint by actively pursuing opportunities.

We have in the past derived a significant portion of our revenue from a limited number of customers. For the years ended December 31, 2016, 2017 and 2018, our five largest customers in aggregate accounted for 58.8%, 45.9% and 58.4% of our total revenue, respectively. We intend to actively expand our business operations into various geographic markets that is believed to have strong demand for our services and good growth potential. Our ability to acquire, secure, develop and operate these new projects is dependent on a number of factors, many of which are beyond our control, including the following:

- availability and quality of wastewater, sludge, or raw water in the relevant area;



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- the severity and public awareness of environmental issues, including environmental pollution, in the target area, as well as the level of environmental compliance enforcement;
- global, national and local economic conditions;
- national and local government policies and regulatory requirements, including environmental standards, the effectiveness and level of government promulgation of environmental protection measures that affect our customers;
- our relationship with local governments;
- industrialization and urbanization level and population density;
- infrastructure, urban planning, zoning and the development plan of the local government;
- convenience and accessibility for our target customers;
- the development of our target markets, including the development of local economies and local population growth and the resulting demand for wastewater treatment, sludge treatment and disposal, water environment treatment and water supply and wastewater source heat pump services;
- location and nature of our existing projects;
- our ability to identify feasible and attractive projects and successfully win bids or competitive negotiations and complete commercial negotiations for such projects;
- our ability to collaborate with local governments to construct and operate, as applicable, wastewater treatment, water environment treatment, water supply, reusable water, wastewater source heat pump and sludge treatment and disposal projects;
- competition (including existing projects of our competitors) in the surrounding area;
- the availability and cost of financing; and
- the availability and cost of suitable land, infrastructure, equipment and raw materials necessary for the development and operation of plants and facilities.

In particular, we may have limited knowledge of the local conditions of the new markets we enter. With our continuous expansion into other regions in the PRC, our management may not be able

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to manage and control our business activities as efficiently as they did in the past and we may need to recruit and allocate more senior management members to support our business expansion. We cannot assure you that we will be able to successfully leverage our experience to expand into other parts of the PRC or overseas. The lack of sufficient managerial, operational, human and financial resources could jeopardize our growth plan, which in turn could materially and adversely affect our business operations and prospects. In addition, the supply of suitable new projects is limited. Even if we can identify opportunities for new projects, we need to negotiate with the local government regarding the commercial terms for our investments, and may face competition from other companies providing similar services as ours. We cannot assure that in the future we will be able to identify and obtain suitable new projects on terms commercially acceptable to us, or at all. If we fail to acquire, secure, develop and operate new projects on terms and in a manner sufficient to support our anticipated growth, our business, financial condition, results of operations and prospects could be materially and adversely affected.

**Local governments and other customers may make claims against us and/or terminate our services in whole or in part should we default on the obligations contained in the relevant agreements or fail to fully satisfy their other requirements.**

The development and operation of our projects are subject to the terms of the agreements with the local governments and our other customers. Under these agreements, our operation and management of plants or facilities may be subject to various technological, management and regulatory changes. These agreements may also impose ownership or other restrictions on us. According to our service concession arrangement agreements, our customer can withdraw the concession and terminate the agreement without compensation if we fail to meet the contractual standards, abide by the restrictions, or respond effectively to various technological, management or regulatory changes during the contractual period, if we mismanage our plants or facilities or otherwise default under the relevant agreements, if serious safety accidents occur as a result of our mismanagement or if the treated wastewater discharged from or the residue of our sludge treatment disposed of by our facilities fails to meet the standards required by the agreements and we fail to rectify such failure within the contractually stipulated period. In the event that a local government withdraws the concession for any of our projects, the tariff payments we have received up to termination may not be sufficient to cover our investment cost and we may not receive any compensation for the investment we have made, which could materially and adversely affect our business, financial condition, results of operations and prospects. In addition, our reputation may be negatively affected under these circumstances, which could further adversely affect our ability to obtain new projects.

The investment made or service concession agreements for our projects typically impose various obligations on us, which include construction of the relevant plant or facility, arranging sufficient financing, submitting appropriate development plans for the project, complying with applicable regulatory requirements, meeting construction deadlines and fulfilling production targets. As at the Latest Practicable Date, we had 25 projects under construction and held for future development. We cannot assure you that the development of our projects in the planning or development phase will not

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be delayed or that these projects will meet the requirements and expectations of our customers. If we fail to complete the projects according to the requirements or otherwise default on our obligations under any of these agreements or if serious safety accidents occur as a result of our mismanagement, our customers may terminate the agreements. Such failures may arise as a result of unsatisfactory project/equipment 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. In these situations, there is no assurance that we will be able to maintain our interest in the relevant project or that the project would generate the revenue that we had originally expected. We may also lose all or part of our investment in a project in the event of a termination of the relevant agreements. 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 we are found liable for delays or failure to complete our projects to the satisfaction of our customers, we may be required to compensate our customers for their losses, the amount of which could be substantial. Our business, financial condition, results of operations and prospects may be materially and adversely affected as a result of any such situations. For details regarding our service concession arrangement agreements and our obligations thereunder, see “Business — Our Projects Under Service Concession Arrangements”.

**Failure to appropriately treat wastewater, sludge and treated water from wastewater treatment plants adequately or supply tap water meeting the required standards due to excessive pollution levels in the incoming wastewater, sludge, treated water from wastewater treatment plants or raw water from water sources or for any other reason, may subject us to fines and/or government ordered shutdowns of our plants, and could damage our plants and reputation.**

Our wastewater treatment, reusable water treatment, sludge treatment and water supply plants are built to treat wastewater, sludge, treated water from wastewater treatment plants and raw water from water sources, respectively, to specific quality standards. The relevant concession agreements pursuant to which we operate our treatment plants generally provide that the relevant government authorities can terminate our concession rights in the event the residue of our sludge treatment disposed of, the treated wastewater discharged or the tap water supplied fails to meet the standards required under the agreements and if we fail to rectify such failure within the contractually stipulated period. Any termination of our concession rights could materially and adversely affect our business, financial condition, results of operations and prospects.

The water quality of our treated wastewater, sludge, treated water from wastewater treatment plants and water supply depends on the normal operation of our plants. We are subject to risks of defects or compatibility problems with our equipment that we may not be able to discover or prevent in a timely manner. We cannot assure you that our staff will always be able to timely discover and repair malfunctioning equipment or any other problems with our treatment process or plants. In these instances, our plants may be unable to treat wastewater, sludge or treated water from wastewater treatment plants or supply water in compliance with the relevant regulatory and contractual standards, which could result in us being subject to claims from our customers or governmental

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sanctions, and may lead to the suspension of our operations pending rectification as well as reputational damage. Related penalties levied under the terms of our agreements or ordered by the PRC government may be substantial, and any penalties levied by the PRC government may not absolve or mitigate contractual penalties. Contractual penalties for failure to meet quality standards may include, among other things, a cancellation of all service fees for the relevant period and the payment of a penalty more than the treatment fee for the relevant period. Such excessive pollution could also damage or accelerate the deterioration of our wastewater treatment, sludge treatment, reusable water treatment or water supply plants. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, the incoming wastewater, sludge, treated water from wastewater treatment plants or raw water from water sources to be treated by our plants may contain pollutants exceeding the types and quantity we contemplated during the design and construction of the plants, due to, among other things, excessive discharge of pollutants or other events beyond our control. For instance, in 2016, the treated wastewater quality for our Inner Mongolia Tongliao Development Zone Waste Water Treatment Project was in violation of the standards prescribed under the relevant PRC laws and regulations as a result of an excessive discharge of pollutants which were beyond our control. We have actively communicated with and explained to the local environmental protection authority and the local development zone management committee in relation to the administrative penalty we received as a result, and obtained an official reply in writing from the local development zone management committee, which confirmed that such violation was caused by an excessive discharge of pollutants from the upstream, thereby exceeding the acceptable capacity of local wastewater treatment plants. In addition, the local development zone management committee has arranged for the upstream entity to indemnify us in full for all losses arising from the excessive discharge. Although we were found not to be at fault eventually, our management has diverted substantial time and effort to the process. During the Track Record Period, our Qingdao Waste Water Treatment Project (Maidao Plant) also received fines as a result of an excessive discharge of pollutants. For details, see “Business — Legal Proceedings”. Any excessive pollution levels of the wastewater, sludge, treated water from wastewater treatment plants or raw water coming into our plants may adversely affect the operating costs and earnings of such plants due to the higher costs required to treat the wastewater, sludge, treated water from wastewater treatment plants or raw water in order to meet the quality standards specified in the agreements with our customers. There may also be disagreements regarding the extent to which the incoming wastewater, sludge, treated water from wastewater treatment plants or raw water is considered to include levels of pollutants exceeding those set out in our agreements. We may need to spend additional time and effort to negotiate with our customers for compensation, including agreeing an upward adjustment in the tariff payable to us. Moreover, should the types or quantities of pollutants in the wastewater, sludge, treated water from wastewater treatment plants or raw water increase significantly, we could be held liable for exposing end users to dangerous substances or other environmental damage. Furthermore, we may be subject to governmental sanctions or damages if our treated effluent (such as wastewater and reusable water) or residue of our sludge treatment fails to meet applicable regulatory standards, and such failures may lead to the suspension of our operations pending rectification. The occurrence of any of the foregoing could have a material and adverse effect on our business, reputation, financial condition, results of operations and prospects.

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In addition, underground water pollution in the areas surrounding our plants resulting from our failure to properly treat wastewater, sludge or treated water from wastewater plants or any other reason may cause us to be liable to the relevant PRC government for violating environmental protection laws. If pollution in the areas surrounding our plants causes damage to the property of third parties, including crops and agricultural products, we may, in addition to facing penalties under environmental regulations, be required to compensate such third parties for their losses. If the government finds us to be in violation of any environmental protection laws, we may be subject to fines and/or government-ordered shutdowns of our plants, which would adversely affect our business, financial condition and results of operations.

**We are dependent on third parties for the supply of equipment and raw materials.**

Our business significantly relies on the steady supply of various utilities, goods and services (in particular construction services) from local suppliers in the PRC, such as the supply of equipment and raw materials. We currently cooperate with local suppliers in the PRC. For the years ended December 31, 2016, 2017 and 2018, our five largest suppliers accounted for approximately 13.4%, 13.8% and 19.9%, respectively, of our total purchase costs and purchases from our largest suppliers accounted for approximately 5.0%, 5.1% and 8.7% of our total purchase costs, respectively, during the same period. If any of our key suppliers for a particular project is unable to continue providing the raw materials and equipment, construction services or other items we need, at prices and on terms and conditions we consider acceptable, we may need to obtain these items from other suppliers. We cannot assure you that we will be able to locate replacements or find new qualified suppliers in a timely manner or at all. Failure to find suitable replacements could jeopardize or cause a delay in the delivery of our supplies, which could materially and adversely affect our business, financial condition, results of operations and prospects.

In addition, our business is significantly affected by the availability, cost and quality of the equipment and raw materials used to construct, install, operate and maintain our plants and facilities. The prices and supply of equipment and raw materials and construction services depend on factors beyond our control, including technology, economic conditions, competition, availability of qualified suppliers, production levels and transportation costs in the PRC. If for any reason our primary suppliers of equipment or raw materials cease or reduce production, provide us with equipment or raw materials that do not meet our specifications or at prices that are not competitive or are on unacceptable terms, we may be unable to quickly identify alternate suppliers on commercially reasonable terms. Our ability to meet our project requirements may be impaired, our construction schedules and operations may be disrupted, and the operational efficiency of our plants and facilities may be affected, which could materially and adversely impact our business, financial condition, results of operations and prospects.

**We depend on third parties for the provision of design, construction, installation, testing, transportation and other services.**

We depend in part on the availability of qualified design institutes and independent contractors for the design, construction, installation and testing of our plants and facilities. For details of our

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arrangements with third parties for the provision of design, construction, installation, testing and other services, see “Business — Suppliers”. We do not have any direct control over the timing or quality of services or supplies provided by these institutes and contractors. We cannot assure you that such skilled institutes and contractors will continue to be available at reasonable rates in the areas in which we conduct our operations, or at all, and we may be exposed to risks relating to the quality of their services and supplies. An institute or contractor who has performed satisfactorily in one area may not be able to perform in the same manner in another area. If we are unable to find qualified design institutes and independent contractors to undertake the design and construction work for our projects on commercially acceptable terms, in a timely manner or at all, our business, financial condition, results of operations and prospects could be materially and adversely affected.

### **We are restricted by covenants in our financing agreements.**

During the Track Record Period, we relied in part on external sources of funding, including bank borrowings and other sources to finance the acquisition, construction, renovation and operation of our projects and our business expansion activities. As of December 31, 2016, 2017 and 2018, our Group’s total borrowings, including bank loans, other loans and corporate bonds, were HK\$4,887.5 million, HK\$6,631.8 million and HK\$7,600.8 million, respectively, of which corporate bonds accounted for nil, HK\$1,181.0 million and HK\$2,035.4 million, respectively. For details, see “Financial Information — Indebtedness”.

Our loan agreements typically include material covenants such as requirements to promptly notify the lending banks or bond underwriters in the event of material adverse changes in our operations and financial condition as well as restrictions on the use of proceeds from the bank borrowings or the bond issuance. We are typically required to obtain the prior written consent from the lending banks or the bond underwriters before we conduct reorganizations, mergers, demergers, joint ventures, capital reductions, equity transfers, transfers of major assets or creditor’s rights, material investments, substantial increases of debt financing or other actions that may adversely affect our ability to repay the loans.

We cannot assure you that we will be able to obtain the relevant consent from the lending banks, bond underwriters for any of the activities restricted by the covenants in a timely manner or at all. If we engage in such activities and fail to obtain such consent, our business may be impeded. In addition, if we breach the restrictive covenants, make any misrepresentations or commit any other violation under our financing or underwriting agreements, we may trigger an event of default. Our bond underwriting agreement, bond instrument and some of our loan agreements also contain cross-default clauses, which could enable bond underwriters, bondholders or creditors (as applicable) under our bond underwriting agreement, bond instrument or loan agreements to declare an event of default should there be an event of default under our other bond underwriting agreements, bond instruments, loan agreements (as applicable) or those of our subsidiaries. Any event of default or cross-default could lead to an acceleration of our indebtedness or require us to compensate the lending banks, bond underwriters and bondholders for their losses, and as a consequence, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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Our loan agreements, bond underwriting agreements and bond instruments may also include financial covenants, such as obligations to ensure that (i) our gearing ratio does not exceed a certain percentage of our audited net assets, (ii) the amount of our guarantees does not exceed either the amount of our audited net assets or the prescribed amount under our Constitution, or (iii) our interest coverage ratio does not fall below a certain threshold. In the event that we fail to comply with the foregoing financial covenants, the lending banks or the underwriters have the right to, among other things, (i) require us to immediately repay the loans and the accrued interest and indemnify them for any loss they may suffer therefrom and (ii) terminate our loan agreements, bond underwriting agreements or bond instruments. Furthermore, we may be required to provide additional guarantees to the lending banks.

**We are exposed to concentration risk of reliance on our top five customers.**

During the Track Record Period, we generated a significant portion of our revenue from our top five customers. For the years ended December 31, 2016, 2017 and 2018, the total revenue from our top five customers amounted to approximately HK\$1,465.5 million, HK\$1,646.9 million, and HK\$2,786.9 million, respectively, accounting for approximately 58.8%, 45.9% and 58.4% of our total revenue for such periods, respectively. For the years ended December 31, 2016, 2017 and 2018, our largest customer accounted for 27.6%, 12.6% and 33.2% of our total revenue. We expect our revenue generated from such customer to continue being a significant portion of revenue in the foreseeable future. As such we may be subject to concentration and counter-party risk from these customers.

There is no assurance that we would be able to maintain good business relationships with our top five customers in the future. Our top five customers are not obliged in any way to continue providing us with new businesses in the future at a level similar to that in the past or at all. Should any of these top five customers reduce substantially the size of their transactions with us or terminate their business relationship with us entirely, or is wound-up or fails to make payments on time, there can be no assurance that we would be able to secure new businesses from other customers to compensate for such reduction in transactions or loss of business entirely. In addition, there can be no assurance that new businesses secured from other customers for replacement, if any, would be on commercially comparable terms. As such, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**We may not be able to successfully manage our growth.**

Our business has expanded from a total of 70 projects in operation, seven projects under construction and two projects held for future development as of December 31, 2016 to 86 projects in operation, 13 projects under construction and 12 projects held for future development as at the Latest Practicable Date. As we continue to grow, we must continue to improve our managerial, technical and operational knowledge and allocation of resources, and to implement an effective management information system. To effectively manage our expanded operations, we need to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff, on a significant scale. In order to fund our ongoing operations and our future growth, we need to have

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sufficient internal sources of liquidity or access to additional financing from external sources. Furthermore, we will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. We will need to further strengthen our internal control and compliance functions to ensure that we are able to comply with our legal and contractual obligations and to reduce our operational and compliance risks. This will pose significant challenges to our management, administrative, financial and operational resources, and we may encounter difficulties in any of the above-mentioned efforts. If we fail to expand our business, maintain our competitive position, satisfy our contractual obligations, or sustain growth and profitability, our business, financial condition, results of operation and prospects will be materially and adversely affected.

**Due to our rapid expansion, our historical results of operations may not be indicative of our future performance.**

Our business has expanded from a total of 70 projects in operation, seven projects under construction and two projects held for future development as of December 31, 2016 to 86 projects in operation, 13 projects under construction and 12 projects held for future development as at the Latest Practicable Date. Due to our significant and rapid growth, some of our projects only recently commenced commercial operation and have limited operation history. Therefore, our historical financial results may be of limited value in assessing our performance, and period-to-period comparisons of our operating results and our results of operations for any period should not be relied upon as an indication of our performance for any future period. Our results of operations, financial condition and future success depend, to a significant extent, on our ability to continue to identify suitable new projects, obtain required regulatory approvals, arrange financing from various sources, complete the projects currently under construction or held for future development in a cost-effective and timely manner, and effectively manage and operate projects in operation, as well as other risk factors mentioned in this Prospectus. There can be no assurance that we will be able to increase or maintain our historical revenue or profit levels.

**We may be adversely affected if there is any significant downtime at our facilities for repair and maintenance.**

Our plants and facilities are subject to normal wear and tear in the course of operation. As a result, our plants and facilities may require extended downtime for repairs and maintenance as and when it is necessary during their life cycles. However, if the time and cost required for such repairs and maintenance exceed our expectations, depending on factors including whether any required repair can be done on-site, the extent of damage, the availability of replacement components, and the capacity of our third-party repair and maintenance services providers, our operations may be affected for a period longer than anticipated and our revenue from the relevant project may be less than originally estimated. In addition, if any extraordinary or extensive repairs to our plants or equipment are required due to any significant or catastrophic event, substantial damage, other unexpected event or component failure or otherwise, our plants or facilities could require significant downtime during which they would not be able to treat wastewater, sludge or treated water from wastewater plants or



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supply quality water as required under our service concession arrangements. Our plants and facilities could experience prolonged or significant downtime or reduction in capacity, and our operations could be materially disrupted. For example, one of the wastewater pipelines owned by Everbright Water (Suzhou) Limited was damaged in April 2016, which required extensive repairs lasting approximately five months. For certain damage to equipment, the relevant equipment may need to be transported to the original supplier for repair and specialized components may need to be commissioned, which may take up to several months. Any significant downtime of our plants and facilities could reduce our total output and utilization, lead to breach of agreements with our customers or have serious consequences for the surrounding communities and industries, which in turn could cause our customers to terminate their agreements with us or subject us to claims for compensation and damages. Thus, any such extraordinary or extensive repairs and maintenance, the termination of our concession agreements or any resulting claims or disputes could materially and adversely affect our business, financial condition, results of operations and prospects.

**The preferential tax treatment we currently enjoy and prevailing tax regulations in the PRC may be unfavorably changed or discontinued.**

Our results of operations and profitability are affected by changes in tax rates and the relevant preferential tax treatment in the PRC. A number of our subsidiaries currently enjoy income tax exemptions and reductions, in accordance with the relevant PRC tax rules and regulations, by reasons that these companies (i) are engaged in the operations of environmental protection public infrastructure, (ii) are classified as a “High and New Technology Enterprise” by the PRC government or (iii) have operations in the Northwest region of China and Qianhai area. For details, see “Regulatory Overview — Taxation” and “Financial Information — Description of Selected Income Statement Line Items — Income tax”. For the years ended December 31, 2016, 2017 and 2018, our effective tax rates, calculated as income tax expense divided by profit before income tax, were 30.7%, 31.2% and 29.9%, respectively. Our effective tax rates may change from year to year due to changes in or discontinuation of any preferential tax treatment.

In addition to income tax, the VAT applicable to our business may also fluctuate. Pursuant to the Circular on Issuing the Catalog of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources (《資源綜合利用產品和勞務增值稅優惠目錄》) issued by the SAT, starting from July 1, 2015, the previous exemption of our wastewater treatment, sludge and reusable water treatment from the VAT was replaced with partial VAT refund. Since then, our wastewater treatment revenue has been qualified for 70% VAT refund and the reusable water treatment revenue has been qualified for 50% VAT refund. For the years ended December 31, 2016, 2017 and 2018, we recognized VAT refund amounting to HK\$106.8 million, HK\$114.0 million, and HK\$98.6 million, respectively, in relation to certain environmental water project operations of our Group in the PRC. For details, see Note 6 to the Accountants’ Report in Appendix I to this Prospectus. However, there is no assurance that we will continue to receive such tax refund in the future.

We cannot assure you that the PRC policies with respect to the preferential tax treatment we currently enjoy will not be unfavorably changed or discontinued, or that the approval for such

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preferential tax treatment will be granted to us in a timely manner, or at all. For the years ended December 31, 2016, 2017 and 2018, our tax concession amounted to HK\$14.1 million, HK\$12.3 million, and HK\$25.0 million, respectively. For details, see Note 11 to the Accountants' Report in Appendix I to this Prospectus. The termination or expiration of our preferential tax treatment or the imposition of additional taxes on us may lead to an increase in our expenses and may have a material adverse effect on our business, financial condition, results of operations and prospects.

**We are dependent on the experience and efforts of our key management team and qualified personnel.**

The industrial knowledge and operational expertise of our management team has contributed to our culture which emphasizes quality, efficiency and market responsiveness. Our continued success is therefore heavily dependent upon the continued services of these key management personnel. Our key management team has an average of over ten years of experience in the environmental protection industry. If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all and may incur additional expenses to recruit and train new personnel, our business could be severely disrupted, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

We are in competition with other companies in similar industries when recruiting adequately skilled employees. Due to the specialized nature of our work, there is a limited supply of adequately qualified technical specialists, including engineers. Our continued success and our ability to develop and implement new technologies, respond to changes in industry trends, offer high-quality services and implement our expansion plans depend largely on our ability to attract and retain high quality personnel, including executive officers, business development personnel and project managers, who have the necessary and required experience and expertise to conduct our business. If we are unable to attract and retain a sufficient number of suitably skilled and qualified technical specialists, our business, financial condition, results of operations and prospects could be materially and adversely affected.

In addition, in the event that a member of our senior management team resigns and joins a competitor or forms a competing company, he or she may compete with us for new customers and business partners on new projects, and for our other key professionals and staff members. Although we have confidentiality agreements between our Company and our senior management team members in connection with his or her employment and such provisions are integrated into the terms of employment, there can be no assurance that we will be successful in enforcing these provisions in the event of a dispute between us and any key employee or ex-employee, as the case may be. If any key employee or ex-employee discloses confidential information in breach of confidentiality agreements with our Company, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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**We may not have adequate insurance to cover the risks related to our business and operations.**

Our main assets include, among others, treatment facilities, pipelines and heat pumps. Operating these assets involves risks and hazards that may adversely affect our operations, including equipment failure, natural disasters, environmental hazards and industrial accidents. We may also face civil liabilities or fines in the ordinary course of business as a result of damage suffered by third parties, which may require us to make indemnification payments in accordance with applicable laws. In addition, the operation of our facilities may be interrupted upon the occurrence of many factors beyond our control, including:

- supply interruptions;
- the breakdown or failure of equipment or processes;
- difficulty or inability to find suitable replacement parts for equipment;
- permit and other regulatory issues, license revocation and changes in legal requirements;
- extreme weather conditions;
- workplace accidents involving personal injury or death;
- unforeseen engineering and environmental problems; or
- unanticipated cost overruns.

We cannot assure that we maintain adequate insurance or will be able to adequately control the impact of these events. We have entered into insurance policies to cover certain risks associated with our business and operations. However, our insurance policies may have limitations and qualifications, and we cannot assure that our current insurance policies will be sufficient to cover all risks and losses that may arise. We may be subject to liabilities against which we are not insured adequately or at all or liabilities against which we cannot insure. For example, our insurance policies do not cover losses caused by breach of contracts by our counterparties. In addition, we cannot guarantee the continued availability of any type of insurance at an acceptable premium level, or at all, and as such, our insurance policies may not continue to be available at economically acceptable premiums. Moreover, we cannot obtain certain types of insurance at a reasonable cost or at all. For example, insurance covering losses from acts of war, terrorism or natural catastrophes is either unavailable or cost prohibitive. If we were to incur a serious uninsured loss, or a loss that significantly exceeds the limits of our insurance policies, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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### **We may fail to adequately protect our intellectual property rights.**

Our business relies substantially on a combination of patents and other proprietary rights. As at the Latest Practicable Date, we had 126 registered patents and five registered trademarks in the PRC. For details of intellectual property rights which are material to our business, see “Appendix V – Statutory and General Information — B. Further Information about the Business of Our Group — 3. Intellectual property rights”. Our intellectual property has contributed significantly to the efficiency of our plants and facilities, the quality of our operation and our ability to secure new projects and purchase orders. Such intellectual property is subject to risks of infringement. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technologies. We cannot guarantee that the steps we have taken will prevent unauthorized use or misappropriation of our technology. In addition, we rely on China Everbright Group to take actions to protect the “Everbright” brand. We generally do not enter into confidentiality agreements with our personnel. Monitoring unauthorized use of our intellectual property is difficult and expensive, and we cannot be certain that the steps we have taken to prevent their unauthorized use will be successful.

Additionally, applicable laws may not fully protect our intellectual property rights. Any claims or litigation that we may initiate in the future to protect our intellectual property rights could be time consuming and expensive, and could divert resources from our business regardless of whether or not the disputes are decided in our favor. Moreover, any significant infringement upon our intellectual property rights could weaken our competitive position, increase our operating costs and have an adverse effect on our business, financial condition, results of operations and prospects.

### **We may infringe on the intellectual property rights of others, and we may face claims that may be costly to resolve or limit our ability to use such technology in the future.**

As we expand our business and increase our geographical coverage, third parties may assert that our technologies or techniques infringe upon their intellectual property rights. Successful intellectual property claims against us could result in significant financial liabilities or prevent us from operating our business or parts of our business. Despite our efforts to comply with the intellectual property rights of others, we cannot determine with certainty whether we are infringing upon any existing third-party intellectual property rights which may force us to alter our technologies, obtain additional licenses or cease significant portions of our operations. In addition, we cannot assure you that we will not face any claims or litigation for infringement of the intellectual property rights of others. Regardless of their merits, these claims or litigation could adversely affect our relationships with current or future customers, result in costly litigation, divert management attention and resources, subject us to significant liabilities, require us to enter into additional licensing requirements, require us to cease certain activities and result in substantial expenses, thereby adversely affecting our business, financial condition, results of operations and prospects.

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## RISK FACTORS

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**We may fail to successfully identify suitable target companies for acquisition or effectively integrate acquired companies into our existing business operations.**

While we have experienced organic growth over the last few years, we have also grown as a result of acquisitions, which increased our total number of projects and geographic coverage. For example, we have (i) completed our reverse takeover of HanKore through which we obtained a total of 17 new projects in December 2014; (ii) acquired Dalian Dongda which had a total of 16 projects in November 2015; and (iii) acquired the Xuzhou Design Institute in June 2018.

Our acquisition strategy has contributed to our historical growth and expansion into new regions. We intend to continue to accelerate our business growth through selective acquisitions of suitable target companies when we deem appropriate. However, our ability to consummate acquisitions is subject to a number of risks and uncertainties, including that (i) we may be unable to identify suitable acquisition targets and reach an agreement on acceptable terms, (ii) we may be unable to identify certain defects in the acquired business during the due diligence process, (iii) we may fail to integrate the acquired business and its operations, personnel, products, services and technologies into our existing business, (iv) we may fail to obtain the necessary financing, and/or (v) we may fail to obtain governmental approvals (if such is required) and third party consents necessary to consummate any proposed acquisition.

Even if we are able to consummate acquisitions, our ability to successfully integrate our acquired targets remains subject to further risks and uncertainties, including but not limited to the following:

- the acquired targets may not achieve the expected synergies with our own business or we may be unable to improve the operational efficiency of the acquired targets in the manner we contemplated;
- disagreement with any joint venture partners or strategic alliance partners;
- we may be unable to effectively manage our enlarged business operations or manage the acquired targets that may operate in new markets or regions;
- the diversion of our resources and management attention from our existing business and technologies;
- the costs of integration are higher than we may have anticipated;
- delay or failure in realizing the expected benefits of the acquired business or its products or services;
- the acquired targets may not generate the revenue and profitability we had anticipated;

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## RISK FACTORS

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- unforeseen or hidden liabilities, including exposure to lawsuits associated with newly acquired companies;
- contravention of regulations governing cross-border investment;
- failure to comply with laws and regulations as well as industry or technical standards of the markets into which we expand;
- our inability to generate sufficient revenues to offset the costs and expenses of acquisitions;
- potential loss of, or harm to, employees or client relationships;
- valuing the assets and liabilities of our acquired subsidiaries and determining the amount of goodwill may have a significant impact on our financial position. In particular, if higher values have been ascribed to our intangible assets, future amortization charges will be higher, which may have a material impact on our future financial position; and
- changes in market circumstances and demands.

For example, we may potentially be affected by our acquisition of Dalian Dongda, HanKore and the Xuzhou Design Institute as (i) we may incur substantial liabilities and fines arising from non-compliance issues that have existed prior to our acquisition, and (ii) they have a large amount of trade receivables which have not been settled as at the Latest Practicable Date. Any of the above may have an adverse effect on our results of operations and financial condition.

We may spend significant time and expend significant resources on acquisitions that do not ultimately increase our profitability. If we make acquisitions using cash from operations or borrowings, it may result in a reduction in our cash flow position. If we make acquisitions or investments using our shares as consideration, our current shareholders' ownership interests will be diluted. Any of these factors could materially affect our business, financial condition and results of operations. In addition, we may obtain funding for acquisitions through bank and other borrowings, and any such borrowings may increase our financial costs and leverage. If the acquired companies' results of operations do not meet our expectations, we may be required to recognize an operating loss in our consolidated financial statements and impairment charges on goodwill or other assets. Any of these factors may have an adverse effect on our results of operations and financial condition.

As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for any future acquisition and had not identified any definite acquisition target for expansion purposes. Our ability to grow through acquisitions further depends upon our ability to identify, negotiate and complete suitable acquisitions, to adequately integrate the businesses we acquire and to obtain any necessary financing for such acquisitions.

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## RISK FACTORS

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We cannot assure you that we will be able to implement our acquisition strategy successfully or that we will be able to make acquisitions or investments on terms favorable to us or within a desired time frame. Even if we are able to successfully acquire suitable businesses or make such investments, we cannot assure you that we will achieve our expected returns on such acquisitions or investments. If we fail to acquire suitable businesses, successfully integrate any acquired businesses into our existing operations or achieve our expected returns on such acquisitions, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**If we expand into other business activities ancillary to our existing businesses, this may impose new challenges on us, and we may lack the necessary experience to deal with these new challenges.**

As at the Latest Practicable Date, we had a diversified business portfolio covering municipal and industrial wastewater treatment, water environment treatment, water supply, reusable water, wastewater source heat pump, leachate treatment, EPC construction, consultancy work and other services. For details, see “Business – Our Business”. In addition, we acquired the Xuzhou Design Institute in June 2018. Nevertheless, any diversification of our business may impose on us new operational, management and planning demands which are significantly different from those we encounter in operating our existing projects and for which we may require different expertise and experience. Accordingly, our management will need time to gain experience operating new project types, and they may not be able to effectively manage such projects. We may not be able to procure a sufficient number of technicians to operate the equipment necessary for such projects. We cannot assure you that our expertise and experience in operating our existing projects can be applied successfully or at all to the types of new businesses. In addition, as the environmental laws and regulations applicable to the quality and technical standards of these projects may be different from those of our existing projects, we may incur additional costs to comply with these legal requirements. We cannot assure you that these projects will develop successfully, be profitable or will allow us to realize our investments. If we fail to meet the challenges posed by the operation of our new businesses, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**Our efforts to expand into international markets may not be successful.**

Despite our focus on the PRC markets in the foreseeable future, we may expand into markets outside the PRC to increase our revenues and enhance our reputation. In February 2018, in order to enhance our research and development capabilities, we, together with RBH Reinhold Brenner Holding GmbH, an environment protection company in Germany which has a number of water technologies incorporated E+B Umwelttechnik GmbH, which will focus on research and development, engineering services, technology transfer, and equipment sale, procurement, installation and commissioning in areas related to water business, as well as acting as an engineering, procurement, and construction contractor for environmental projects. We have limited experience in international operation, and any future international expansion could face considerable business and regulatory risks in our expansion into international markets, including:

- market demand for our services;

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## RISK FACTORS

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- a lack of local presence and familiarity with the cultural, regulatory and business environment and practices;
- shortage of personnel with necessary language skills and technical capabilities;
- a lack of familiarity with international suppliers;
- the burden or cost of complying with foreign laws and regulations, including unexpected changes in laws that may have an adverse effect on foreign businesses;
- inherent difficulties and delays in contract enforcement through the use of foreign legal systems;
- difficulties identifying suitable investment opportunities in a foreign jurisdiction;
- changes in political, regulatory or economic conditions;
- political and social instability, wars and terrorism;
- volatility in currency exchange rates;
- potentially adverse tax consequences;
- foreign exchange control or regulatory restrictions that could prevent us from repatriating income earned in or transferring funds to such countries;
- difficulties in obtaining necessary permits, approvals, licenses or authorizations for our business and operations; and
- longer payment cycles and problems in collecting accounts receivables.

We cannot assure you that our efforts to enter into any international markets will be successful. Any of the foregoing risks could result in failure to successfully introduce our services in those markets, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

**If we are unable to accurately estimate the overall risks, timing and percentage of completion, revenues from or costs of developing, operating or maintaining our projects, our profitability may be adversely affected or we may incur losses.**

In managing our service concession arrangement projects under the BOT project models, we are required to make substantial investments in the construction and/or operation of relevant projects



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## RISK FACTORS

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according to the relevant agreements, where parties agree to, among other things, overall construction costs, time of completion and concession period, as well as the tariffs and fees that we may charge. For each project, from the outset, we consider the overall project costs based on our estimation and judgment taking into account various factors, including estimated costs of construction and operation, expected profit, specifications of relevant projects and market competition.

We recognize and account for revenue from our construction in progress for our BOT projects by reference to the progress towards complete satisfaction of a performance obligation. For our BOT projects, we engage independent third party valuers to value the construction services during the Track Record Period that form a basis for us to estimate the total amount of revenue which should be recognized during the construction phase. In determining the percentage of completion for each relevant reporting period, we use the actual construction cost incurred during the period over our estimation of the total projected construction cost for the entire construction phase. We estimate the amount of construction costs for the entire construction phase based on our assessment of, among other things, the conditions and the costs of raw materials, project contractors, and equipment and other operating costs.

The BOT project models expose us to, among other things, the risks of inaccurate forecasts such as at the bidding stage, the cost of construction of the project, or in the construction period, the costs of maintenance and repair of the project during the contractual term and the revenue to be derived from the operation of the constructed plant, infrastructure or facility. Inaccuracies or flaws in our measurements, our estimated timing of completion or our estimation methodology as a whole, could have a material and adverse effect on the timing of our revenue recognition and on the amount of revenue recognized. Where our actual revenue recognition is different from our previous estimation, the differences will be charged to our profit and loss account in the period when such estimate has been changed. Such discrepancies may adversely affect our business, financial condition and results of operations and prospects. Also, cost overruns will result in lower profit or even a loss on a project. Unforeseen factors, such as changes in employment costs, variations in labor and equipment productivity over the contractual term and unexpected increases in costs of materials, may cause our revenue and gross profit to be lower than expected, despite any buffer we may have built into our bids for increases in costs of labor and materials costs. If our actual costs are higher than expected and if we are not able to obtain sufficient compensation from our customers to offset the cost overruns, our business, financial performance and prospects could be materially and adversely affected. Furthermore, for many of our projects, we finance our construction expenditures with bank and other borrowings. As a result, should our customers delay, or be unable to make, payment upon completion of the project due to reasons beyond our control, we may not be able to satisfy our obligations under the relevant financing agreements, in particular, for those projects where we undertake, or jointly undertake with the government or other companies, the financing, construction, operation and maintenance of a constructed project. As a result, if we incorrectly forecast revenue to be derived from the use of the constructed facility or plant at the bidding stage or are exposed to prolonged fluctuations in economic conditions, our business, financial position and results of operations and prospects may be adversely affected.

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## RISK FACTORS

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Moreover, while most of our wastewater treatment projects are operated on the basis of guaranteed minimum volumes and/or guaranteed minimum unit prices, we cannot assure you that these projects will operate profitably, or generate sufficient revenue to cover our costs during their respective concession periods, as the profitability of our plants and facilities could be affected by many factors beyond our control, including any adverse change in government policy or market demand for our services, change in urban development that may increase our costs to operate or upgrade our projects, or increases in operational costs, maintenance costs, labor costs or raw material prices in circumstances where we may not be able to timely offset such additional costs by increases in our unit prices. During the Track Record Period, we also entered into arrangements pursuant to which we have agreed to develop some of our wastewater treatment projects without guaranteed minimum volumes. As a result, in addition to the aforementioned factors which are beyond our control, this project is also subject to risks of insufficient volumes of incoming wastewater or reduced unit prices. We cannot assure you that the revenue derived from the operation of our wastewater treatment and water supply projects will cover our initial investment and/or generate the expected profits.

Furthermore, because our projects generally have long concession periods in which we are responsible for all repairs and maintenance of the plants, if our plants or facilities fail to function as long or as efficiently as we have estimated, we may need to incur additional costs for replacement parts or repairs and maintenance of the plants or facilities or may experience longer shutdown periods than we had originally anticipated, and, as a result, we may experience reduced profitability or even incur losses.

**We are exposed to risks associated with entering into contracts with local governments in the PRC, and our business and financial performance may be significantly affected by government spending on infrastructure and other projects.**

Most of our customers are local government authorities in the PRC. To the extent that our projects are funded by local governments or receive payments from local governments, they may be subject to delays of payments or changes as a result of changes in the local governments' budgets or other policy considerations. In general, local government spending on environmental protection, infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in the PRC's economic and political conditions and changes in local government policies. Changes in governmental budgets and policies relating to our projects and any deterioration in the liquidity and cash flow of the local governments which are our customers could result in delays in project commencement or completion, adverse changes to such projects, changes to timing of invoicing or a withholding of, or delay in, payment to us. For example, as at the Latest Practicable Date, several local governments only made partial payments to our Dalian Dongda as a result of adverse financial conditions. The failure of any of our governmental customers to make timely payments for our services could have a material and adverse impact on our business, financial condition, results of operations and prospects.

Furthermore, in some circumstances, local governments may require us to change our construction methods, equipment or other performance terms; direct us to reconfigure our designs or

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## RISK FACTORS

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purchase specific equipment; or require us to undertake additional obligations or change other contractual terms, thereby subjecting us to additional costs. Moreover, resolution of any disagreement with local governments with respect to such changes may be time-consuming and may cause us to incur additional costs. In addition, during our negotiations with counterparties, which are usually government entities, we may not be able to negotiate the terms and conditions that we wish to have in our service concession arrangements as compared to counterparties in the private sector.

In some cases, the government may also resort to administrative penalties or fines or withdraw the concession and terminate the agreement without compensation if we fail to complete the construction on time and according to the specifications prescribed in the relevant agreement, or if the residue of our sludge treatment disposed of or the treated wastewater discharged from by our facilities fails to meet the discharging standards as stipulated in the relevant agreement after having been given the opportunity to remedy the problem. During the Track Record Period, except for our Inner Mongolia Tongliao Development Zone Waste Water Treatment Project and Qingdao Waste Water Treatment Project (Maidao Plant) which were subject to administrative penalty and fines, we were not notified by any relevant government authorities of any failure to complete construction according to a stipulated timeline or to meet a stipulated supply, discharging or disposing standards for most of our projects. However, we cannot assure you that local governments will not resort to administrative penalties or fines or withdraw the concessions or terminate our agreements in the future.

Moreover, any disputes with governmental entities and other public organizations could potentially lead to the termination of the relevant contract if unresolved or may take a considerably longer period of time to resolve as compared to disputes with counterparties in the private sector, and payments due to us from these entities and organizations may be delayed as a result. Such entities and organizations may claim sovereign immunity as a defense to any claims we may make against them. If a government entity or other public organization terminates a contract with us, our projects could be reduced, our business plans may need to be modified and our business and financial performance may be materially and adversely affected.

Furthermore, the terms of our BOT and TOT service concession arrangements with local governments generally range from 20 to 30 years. If we are unable to renew a service concession arrangement or obtain service concession arrangements for new projects, our business, financial condition and results of operations may be adversely affected.

We also depend on the timely construction and proper operation of the pipeline networks owned by the PRC government for our wastewater treatment, sludge treatment, reusable water, water supply and wastewater source heat pump operations. However, we cannot assure you the proper operation of these networks. In the event that there is any defect in these networks, which delays or otherwise obstructs the supply of wastewater, treated water from wastewater treatment plants, raw water from water sources to our relevant treatment plants, the treatment processes or supply process may be substantially disrupted and our ability to process wastewater, treated water from wastewater treatment plants or supply water in a timely manner may be materially and adversely affected.

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## RISK FACTORS

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**If we fail to comply with governmental procurement laws and regulations, we could lose business and be liable for various penalties or sanctions. In addition, our facilities are subject to governmental actions on urban planning and re-development which may result in expropriation and unilateral termination of our facilities without adequate compensation.**

We must comply with relevant laws and regulations relating to the formation, administration and performance of government contracts. These laws and regulations affect how we conduct business with our government customers. Failure to comply with these laws and regulations can lead to contractual damages or severe penalties, both civil and criminal, or suspension and disqualification from contracting with the local governments. If we fail to comply with these laws and regulations, our reputation may be damaged, which could impair our ability to secure government contracts in the future or renew existing contracts. We are also routinely subject to governmental audits relating to our investment or concession agreements. A finding of significant operation deficiencies in our system audits or other reviews can result in withholding of payments until the deficiencies are corrected and our corrections are accepted by the local governments. Government audits and reviews may conclude that our practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant amount of refunds. Our receipt of adverse audit findings could materially and adversely affect our business, including our ability to secure new contracts and our competitive position in the bidding process. A determination of non-compliance with applicable contracting and procurement laws, regulations and standards could also result in the local governments imposing penalties and sanctions against us, including suspension of payments and increased government scrutiny that could delay or adversely affect our ability to invoice and receive timely payment on contracts, perform contracts, or compete for contracts with the local governments in the future. Any of the above could have a material and adverse impact on our business, financial condition, results of operations and prospects.

In addition, our facilities in the PRC are subject to political and regulatory uncertainties relating to urban planning, zoning and re-development, and may be affected by government actions to cancel contracts, renounce or default on contractual obligations, renegotiate terms unilaterally, or expropriate assets from time to time with little, if any, prior notice. There can be no assurance that we will identify and acquire the required land as per our schedule of implementation. Furthermore, there can be no assurance that the operations of our remaining plants or facilities will not be suspended or terminated by the PRC government due to changes in urban planning or other regulatory or policy reasons in the future. In the event of any suspension or termination, we may experience a material decrease in revenues and profits. Moreover, legal or financial remedies available to compensate us for expropriation or other governmental takings may be inadequate, which could result in the total loss of our investment in our plants or facilities. Any of these could have a material adverse effect on our business, financial condition, results of operations and prospects.

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## RISK FACTORS

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**The government grants and government subsidies received by our Group during the Track Record Period were non-recurring in nature.**

For the years ended December 31, 2016, 2017 and 2018, certain government grants of approximately HK\$6.5 million, HK\$11.4 million and HK\$23.9 million, respectively, were granted to our Group to subsidize certain water and wastewater treatment plants of our Group in the PRC. For details of our government grants, see Note 6 to the Accountants' Report in Appendix I to this Prospectus. These government grants and government subsidies are non-recurring in nature and the amounts of these grants and subsidies were subject to the discretion of local governments and there were no unfulfilled conditions or contingencies. We cannot predict or guarantee the amount of subsidies to be granted for any specific project. There is no assurance that our Group will receive such government grants and government subsidies for future financial years and our financial position may be adversely affected if we fail to obtain such government grant and government subsidies in the future.

**If our goodwill is impaired, our reported financial results could be negatively affected.**

We are required to perform an annual test of our goodwill for the wastewater treatment segment to determine if impairment has occurred. As of December 31, 2018, we had approximately HK\$1,242.7 million of goodwill on our consolidated statements of financial position. During the Track Record Period, no impairment to goodwill had been made. For details of our goodwill and sensitivity analysis, see Note 17 to the Accountants' Report in Appendix I to this Prospectus.

Goodwill is initially measured at cost. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each cash-generating unit, or groups of cash-generating units. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (groups of cash-generating units) to which goodwill relates. If the recoverable amount is less than the carrying amount, an impairment loss is recognized.

When determining the recoverable amount, either methods of fair value less costs of disposal or value in use can be applied, whichever is higher. Fair value less costs of disposal is the price which a buyer is willing to pay and a seller is willing to accept in an arm's length transaction, less any incremental costs directly attributable to the disposal, which requires an active market or reliable market information. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There are inherent uncertainties related to these factors and to our judgment in applying these factors to the assessment of goodwill recoverability. Impairment charges could substantially affect our reported results of operations in the periods of such charges. We cannot assure you that there will not be impairment to our goodwill in the future, the occurrence of which may negatively impact our reported financial results.

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## RISK FACTORS

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**We are exposed to credit and liquidity risks with respect to the payment structure under our project model agreements and payment delays or defaults by our customers as well as any failure to recoup construction costs due to failure to receive sufficient payments may negatively affect our business, financial condition, results of operations and prospects.**

Our profitability and cash flow depend on timely payments by our customers for the services we provide to them. In addition, the payment structures of our project agreements expose us to certain credit and liquidity risks.

Our average trade receivables turnover days for the year ended December 31, 2016, 2017 and 2018 were 65.4 days, 42.9 days and 45.4 days, respectively. As of December 31, 2016, 2017 and 2018, our net trade receivables past due over one year were HK\$57.2 million, HK\$79.7 million and HK\$69.9 million, respectively. For details, see “Financial Information — Liquidity and Capital Resources — Trade and other receivables”. During the Track Record Period, we had experienced delayed payments from some of our customers and low subsequent settlement of trade receivables. As of February 28, 2019, HK\$234.1 million, representing 32.5% of our net trade receivables as of December 31, 2018, had been settled. As of December 31, 2018, our net trade receivables past due more than one year amounted to approximately HK\$69.9 million, representing 5.9% of our net balance of trade and other receivables. If we fail to receive our long overdue trade receivables or if there is any event or change in circumstances that renders the long overdue trade receivables impaired or uncollectible, our liquidity, business, financial condition, results of operations and prospects could be materially and adversely affected.

If any of our customers face financial difficulties, including, but not limited to, fewer financial resources caused by any economic downturn or fiscal constraints, we may be unable to receive full or any partial payment of uncollected sums or enforce any judgment debts against such customers in a timely manner or at all. We may also need to make greater provisions for receivables, which could adversely affect our business, liquidity, financial condition, results of operations and prospects. Because the stream of payments from our customers in the operational phase of our BOT, TOT and BOO projects is our primary stream of cash flow, ensuring that we obtain payment on time is essential to our ongoing business success. In the past, certain of our customers have delayed their payment to us. Any delay in the settlement of amounts due to us could materially and adversely affect our business, financial condition, results of operations and prospects.

Further, our customers may refuse to accept, or may delay the acceptance of, plants or facilities we construct due to disputes with us with respect to the standard and quality of the plants or facilities. If such disputes arise, we cannot assure you that we will receive adequate payment in a timely manner, or at all. In addition, our customers may unilaterally alter the terms of our agreements with them, including delaying the scheduled delivery of projects or sub-projects. Any such delay would in turn delay the initiation of the related concession or operational period, which would adversely affect our cash flow and financial condition.

We cannot assure you that we will always be able to reach agreements with our customers on amounts to be paid to us or that we will receive payments from our customers in a timely manner.

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## RISK FACTORS

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Considering the substantial financial investment required for our most of projects, if the final amounts we agree upon with our customers are insufficient to compensate us for our construction costs and generate interest and investment gains as expected, we may be subject to lower profitability or may even be required to recognize losses, which may have an adverse effect on our business, financial condition, results of operations and prospects.

**We recorded negative operating cash flow during the Track Record Period. If we record negative operating cash flows in the future, our liquidity and financial condition may be materially and adversely affected.**

We recorded negative operating cash flows for the years ended December 31, 2017 and 2018, respectively, of HK\$264.3 million and HK\$1,015.6 million. Our negative cash flows from operating activities were mainly due to the construction of BOT projects or acquisition of TOT projects under service concession arrangements. We generally spend cash upfront to build such BOT projects or acquire such TOT projects and do not receive cash payments until the project is in operation. The cash we spend on construction or acquisition of such projects is recorded as cash used in operating activities. In general we only receive cash payments in the operation phase of our projects under the BOT and BOO project models, we usually incur net cash outflow during the construction phase of our projects. As of December 31, 2016, 2017 and 2018, we had seven, 12 and 13 BOT projects under construction, respectively. Our operating cash flows are affected by the number and scale of projects under construction or being acquired. Due to the increase in large-scale BOT projects under construction or TOT projects being acquired during the Track Record Period, our cash used in operating activities have exceeded cash flows generated from operating activities. If we continue to have negative operating cash flows in the future, our liquidity and financial condition may be materially and adversely affected. For details, see “Financial Information — Liquidity and Capital Resources — Net cash flows from/(used in) operating activities”. We cannot assure you that we will be able to record positive operating cash flows in the future. Our liquidity and financial condition may be materially and adversely affected should our future operating cash flows 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.

**We may record net current liabilities in the future.**

We recorded net current assets of HK\$825.7 million, HK\$1,313.3 million and HK\$664.7 million as of December 31, 2016, 2017, and 2018, respectively. As of February 28, 2019, we had net current assets of HK\$1,885.8 million. For details, see “Financial Information — Liquidity and Capital Resources — Net current assets/(liabilities)”. There can be no assurance that our business will continue to be able to generate sufficient cash flows from operations in the future to serve our debts, improve our liquidity and record net current assets. If we record net current liabilities, we may face a deficiency of working capital and may not be able to service short term debts. Any of these events could have a material adverse impact on our business and results of operations.

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## RISK FACTORS

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### **An increase in interest rates may increase our finance costs and compromise our profitability.**

During the Track Record Period, for most of our service concession arrangement projects, we adopt the BOT, TOT and BOO project models. We are required to make substantial financial investments during the initial phase of these project models and we have relied on bank loans and corporate bonds to finance a portion of such investments during the Track Record Period. In July 2017, we issued the First Tranche Panda Bonds with a principal amount of RMB1 billion, bearing a coupon rate of 4.55% for a five-year maturity. The interest shall be paid annually and the principal of RMB1 billion would be paid after the maturity of the First Tranche Panda Bonds. In August 2018, we issued the Second Tranche Panda Bonds with a principal amount of RMB800.0 million, bearing a coupon rate of 4.60% (with respect to the type 1 bonds) and of 4.58% (with respect to the type 2 bonds) for a five-year maturity. The interest shall be paid annually and the principal of RMB800.0 million would be paid after the maturity of the Second Tranche Panda Bonds. In January 2019, we issued the Third Tranche Panda Bonds with a principal amount of RMB700.0 million, bearing a coupon rate of 3.89% for a five-year maturity. The interest shall be paid annually and the principal of RMB700.0 million would be paid after the maturity of the Third Tranche Panda Bonds. According to the terms of the corporate bonds, our Company is entitled to adjust the interest rate of the corporate bonds after three years from the issue date and the bondholders have an option to sell the corporate bonds back to our Company at a nominal price in the meanwhile.

We expect to continue utilizing bank and other loans and corporate bonds to finance a portion of our investments in our projects. For the years ended December 31, 2016, 2017 and 2018, we recorded net finance costs of HK\$197.6 million, HK\$228.9 million and HK\$273.5 million, respectively. For the years ended December 31, 2016, 2017 and 2018, we recorded finance costs charged to consolidated statements of comprehensive income of HK\$205.2 million, HK\$241.4 million and HK\$291.4 million, respectively. As of February 28, 2019, our total borrowings amounted to HK\$8,746.5 million. As a number of our loans have floating interest rates linked to, among others, the benchmark rates of PBOC, HIBOR and LIBOR. In the PRC, the PBOC regulates the lending rates and reserve requirement ratios for commercial banks. Between 2012 and the Latest Practicable Date, the PBOC revised the benchmark one-year lending rate and adjusted the reserve requirement ratio for commercial banks several times. The reserve requirement refers to the amount of funds that banks must hold in reserve with the 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. The benchmark one-year lending rate is currently 4.35%, effective from October 24, 2015. Accordingly, changes in the interest rate and reserve requirement ratios for banks have affected, and will continue to affect, our finance costs and profitability. We cannot assure that the PBOC will not raise lending rates or reserve requirement ratios in the future. If there is a material increase in the reference rates, including those set by the PBOC, during the term of our relevant loan facilities or when our current loan facilities become due, our finance costs may increase substantially and our liquidity, business, financial conditions, results of operations and prospects could be materially and adversely affected.



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## RISK FACTORS

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### **We are exposed to foreign exchange rate fluctuations.**

We conduct nearly all of our operations in the PRC and our functional currency is RMB. On the other hand, our presentation currency is HK\$. Some of the functional currency of our subsidiaries are in RMB, HK\$ and EUR and when we consolidate these subsidiaries into our Group, we will recognize foreign exchange differences arising from translation from functional currency to presentation currency. For the years ended December 31, 2016 and 2018, the exchange differences arising from translation were exchange losses of HK\$598.6 million and HK\$509.1 million, respectively. For the year ended December 31, 2017, the exchange differences arising from translation were exchange gains of HK\$587.9 million. Included in the exchange differences arising from translation were exchange losses of HK\$659.9 million and HK\$441.7 million for the years ended December 31, 2016 and 2018, respectively, and exchange gains of HK\$591.9 million for the years ended December 31, 2017, related to the exchange differences on translation of the Company's financial statements into the presentation currency, and the remaining balance of the exchange differences arising from translation were related to the exchange differences on translation of PRC subsidiaries and an associate. Any currency fluctuations on translation of the accounts of these subsidiaries and the associate and also on the repatriation of earnings, equity investments and loans may therefore impact on our financial position or potential income, asset value and liabilities. For details of exchange differences arising from such translation, see "Consolidated Statements of Comprehensive Income" in the Accountants' Report as set out in Appendix I to this Prospectus. In addition, we have paid dividends and have assets denominated in SGD.

The value of the RMB against the SGD, HK\$, USD and other currencies fluctuates and is affected by, among other things, changes in PRC and international political and economic conditions and the PRC government's fiscal, monetary and currency policies. Since 1994, the conversion of RMB into foreign currencies, including USD, HK\$ and SGD, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 2005, the official exchange rate for the conversion of RMB to USD was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. In August 2008, the Regulations of the People's Republic of China on Foreign Exchange Control (《外匯管理條例》) was revised to promote the reform of its exchange rate regime. In June 2010, the PBOC increased the flexibility of the exchange rate. In August 2015, the PBOC changed the way it calculates the mid-point price of RMB against the USD, requiring the market-makers who submit reference rates to consider the previous day's closing spot rate, foreign exchange demand and supply as well as changes in major currency rates. Since then, the value of the RMB depreciated considerably against the USD. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB against the HK\$, USD, SGD or other currencies in the future.

Fluctuations in exchange rates may adversely affect the value, converted into SGD, HK\$ or USD, of our net assets, earnings and any declared dividends. Any increased costs or reduced revenues as a result of foreign currency fluctuations could also adversely affect the profits and margins of our anticipated businesses abroad.

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## RISK FACTORS

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**We are exposed to risks associated with unlawful acts or other misconduct committed by our employees, such as unauthorized business transactions, bribery and breach of our internal policies and procedures, or breach of laws, which may be difficult to detect or prevent.**

Fraud or other misconduct conducted by our employees (such as unauthorized business transactions and breaches of our internal policies and procedures) or third parties (such as breach of law) may be difficult to detect and prevent and could subject us to financial loss, sanctions imposed by governmental authorities and seriously harm our reputation. Our risk management systems, information technology systems, and internal control procedures are designed to monitor our operations and overall compliance. However, we may not be able to identify non-compliance matters in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct, which may have previously occurred but was undetected and these fraud or misconduct may re-occur in the future. This could materially adversely affect our business, financial condition and results of operations and our ability to meet our financial goals.

**Our business involves the handling of hazardous chemicals.**

In order to operate our business, we are required to utilize a variety of hazardous chemicals, typically those related to the chemical treatment processes that we apply to wastewater and sludge, river-basin ecological restoration and water supply.

In addition, we rely on third-party suppliers of hazardous chemicals to ensure an adequate and uninterrupted supply of such at our plants. In the event that we are unable to maintain an adequate supply of such chemicals at any of our plants, we would be unable to continue normal business operations until we had found a replacement supply, which would have an adverse effect on our business and results of operations. We cannot guarantee with regard to any particular hazardous chemical that we would be able to find a replacement supply at a reasonable price, in a timely manner or at all.

The handling of hazardous chemicals involves a certain degree of risk to our employees, plants and the areas surrounding our plants and facilities. In the event of improper handling of hazardous chemicals, defect in the containers or equipment used to handle such chemicals, or any other unforeseen risk, our workers, equipment and the areas surrounding our plants may be exposed to hazardous chemicals. Such exposure could result in death or injury to our workers or nearby residents or damage to the surrounding environment. If such exposure were to occur, we may be subject to legal action and government sanction, and our relationship with our workers and our general reputation may be adversely affected, which would in turn have an adverse effect on our business and results of operations.

**We may be involved in legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result.**

We may be involved in disputes with various parties involved in our wastewater treatment, water environment treatment, water supply, reusable water and wastewater source heat pump

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## RISK FACTORS

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projects, including the local governments, suppliers, customers and contractors. These disputes may lead to legal or other proceedings and may result in substantial costs, delays in our development and operation schedule, and the diversion of resources and management's attention, regardless of the outcome. In addition, labor disputes at our plants or facilities could significantly disrupt our operations or our expansion plans. We may also have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decisions that result in penalties or delay or disrupt the development and operations of our plants and facilities. In such cases, our results of operations could be materially and adversely affected.

**Our Controlling Shareholder may exert substantial control over our Company and its interests may not be aligned with the interests of our other Shareholders.**

Upon Listing, CEIL will own approximately 72.43% of the Shares, assuming the Over-allotment Option is not exercised. As such, the Controlling Shareholder will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. These actions may be taken even if they are opposed by our other shareholders. In addition, the interests of our Controlling Shareholder may differ from the interests of our other shareholders.

**The "Everbright" brand name may be harmed or damaged, which may materially and adversely affect our business, financial condition, results of operations and prospects.**

We market our services primarily under the "Everbright" brand name. As a member of China Everbright Group, we have benefited from the reputation, customer network and the established market leadership of China Everbright Group and CEIL. We do not own the "Everbright" brand name and have obtained the right to use this brand name under the relevant licensing agreement. See "Business — Intellectual Property". We and many other subsidiaries of China Everbright Group share the common brand name "Everbright". We cannot assure you that there will not be any negative news or media coverage related to any of these subsidiaries which may harm or damage the "Everbright" brand name and its reputation. We may not be able to protect "Everbright" brand name as we are not in a position to control or influence the conduct of the other parties that share such brand name with us. We also rely on China Everbright Group to enforce our rights relating to the "Everbright" brand name against infringement. Any damage to the "Everbright" brand name and any failure to protect the "Everbright" brand name could harm our reputation and result in the loss of our competitive advantage and materially and adversely affect our reputation, business, financial condition, results of operations and prospects.

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## RISK FACTORS

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**We are a holding company and a majority of our revenue depends on distributions from our project companies.**

Our revenue depends on the revenues and cash flow of, and distributions from, our project companies to satisfy our financial obligations and pay dividends to our shareholders. We currently conduct, and expect to continue conducting, our operations through project companies. The availability of distributions from our project companies is subject to the satisfaction of various covenants and conditions contained in the relevant companies' financing documents and certain regulatory restrictions. In particular, as our project companies incur debt on their own behalf, the loan agreements governing that debt may restrict their ability to make payments to us. In addition, we anticipate that our future project-level financing will contain certain conditions and similar restrictions on distributions to us. Any inability to receive distributions from our project companies may have a material adverse effect on our business, financial condition and results of operations.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

**Changes in economic, political, legal and social conditions and developments in the PRC as well as policies adopted by the PRC government may have a material and adverse effect on our business, financial condition, results of operations and prospects.**

We conduct our business in the PRC, as a result, our business, financial condition, results of operations and prospects are significantly affected by the economic, political, legal and social conditions and developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange. Historically, the PRC economy was centrally-planned, with a series of economic plans promulgated and implemented by the PRC government. Since 1978, the PRC government has been undergoing a transition from a planned economy to a market-oriented economy.

These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. However, we cannot assure you that the PRC government will continue to pursue economic reform. A variety of policies and measures that may be implemented by the PRC government to regulate the economy, including the introduction of measures to control inflation, deflation, or reduce growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, changes in foreign exchange regulations, taxation and import and export restrictions may have a material and adverse effect on our business, financial condition, results of operations and prospects. Also, 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 economic, political, legal and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may adversely affect our operations and the growth of our business. In addition, while the PRC's economy has experienced significant growth over the last three decades, such growth has been uneven across both geographic

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## RISK FACTORS

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regions and the various sectors of the economy. Moreover, the economic growth rate of the PRC has decreased in recent years. Our business may also be affected by the PRC government's economic, political and social policies on the development of regions where our major operations are located, policies in relation to wastewater treatment, sludge treatment and disposal, water environment treatment, water supply, reusable water and wastewater source heat pump, and any changes to the relevant PRC regulations regarding our industry. We are unable to accurately predict the precise nature of all the risks and uncertainties that we face as a result of current economic, political, social and regulatory conditions in the PRC, and many of these risks are beyond our control.

### **We may be subject to PRC income tax if we are recognized as a PRC tax resident.**

Under the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (the "EIT Law") and its implementation rules, if an enterprise incorporated outside the PRC has its "de facto management bodies" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on its worldwide income. Under the implementation rules for the EIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Since all of our management is currently located in the PRC, we may be recognized as a PRC tax resident enterprise for the purpose of the EIT Law and therefore we would be subject to PRC income tax at the rate of 25% on our worldwide income. In such event, our income tax expenses may increase significantly and our net profit and profit margin could be materially and adversely affected.

### **Dividends from our PRC subsidiaries and dividends on our Shares and gains on the sales of our Shares may be subject to PRC withholding taxes.**

We are a Bermuda holding company and most of our income is ultimately derived from dividends that are paid by our subsidiaries in the PRC. Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources paid to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is generally subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

In addition, if we are considered to be a PRC resident enterprise, dividends we pay with respect to our Shares, or any gain our Shareholders may realize from the transfer of our Shares, may be treated as income derived from sources within the PRC and subject to PRC tax. In such case, we may be required under the EIT Law to withhold PRC income tax on dividends payable to our investors who are non-PRC resident enterprises, and our Shareholders would be required to pay PRC income tax on the transfer of our Shares. The value of our Shareholders' investment in our Shares would be reduced as a result.

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## RISK FACTORS

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**We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.**

On February 3, 2015, the PRC State Administration of Taxation issued the Public Announcement on Several 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》) (“SAT Circular No. 7”), which provides comprehensive guidelines relating to indirect transfer of PRC taxable assets by a non-resident enterprise. For example, SAT Circular No. 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC taxable assets, when a non-resident enterprise transfer PRC taxable assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC taxable assets. The PRC tax authorities may disregard the existence of such overseas holding company and consider the transaction to be a direct transfer of PRC taxable assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC EIT and lack any other reasonable commercial purpose.

Although SAT Circular No. 7 contains certain exemptions (including (i) where a non-resident enterprise derives income from the indirect transfer of PRC taxable assets by acquiring and selling shares of a listed overseas holding company which holds such PRC taxable assets on a public market; and (ii) where there is an indirect transfer of PRC taxable assets, if the non-resident enterprise had directly held and disposed of such PRC taxable assets, the income from the transfer would have been exempted from PRC EIT under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under SAT Circular No. 7 will be applicable to the transfer of our shares or to any future acquisition by us outside of the PRC involving PRC taxable assets, or whether the PRC tax authorities will reclassify such transaction by applying SAT Circular No. 7. SAT Circular No. 7 may be determined by the tax authorities to be applicable to our reorganization, if such transaction was determined by the tax authorities as lacking in reasonable commercial purpose. As a result, we may be subject to tax under SAT Circular No. 7 and may be required to expend valuable resources to comply with SAT Circular No. 7 or to establish that we should not be taxed under SAT Circular No. 7, which may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

**Uncertainties with respect to the PRC legal system could have a material and adverse effect on our business and operations.**

Our main business and operations are conducted in the PRC and are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes and their interpretations in terms of application and enforcement by relevant legislative and judicial authorities, various administrative regulations and decrees. Prior court decisions may be adduced for reference but have limited preferential value. Since 1979, the PRC government has committed to developing a comprehensive system of commercial law to regulate business practices and the country’s overall economy. The PRC has made significant progress in the promulgation of laws and regulations dealing with economic matters, such as shareholders’ rights, foreign investment, corporate organization and governance, commercial transactions, taxation and trade. However, the PRC has not developed a fully-

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## RISK FACTORS

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integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws and regulations are relatively new, and given the limited volume of published decisions, the involvement of different enforcement bodies and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of these laws and regulations involve significant uncertainties, which may lead to restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action, investors may take against us in the PRC, and may not be as consistent and predictable as in other jurisdictions. These uncertainties, which may impede our ability to enforce our contracts, or any development or interpretation of PRC laws that is adverse to us, could materially and adversely affect our business, financial condition and results of operations.

In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase our costs and regulatory exposure in complying with them.

**Any future occurrence of force majeure events, natural disasters, industrial accidents, mass protests or outbreaks of contagious diseases in the PRC may have a material and adverse effect on our business operations, financial condition, results of operations and prospects.**

Any future occurrence of force majeure events, natural disasters, industrial accidents, mass protests or outbreaks of contagious diseases, including but not limited to those caused by avian influenza or swine influenza, may restrict business activities in the areas affected and adversely affect our business and results of operations. Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies of the PRC. If in the future any of our employees are suspected of having SARS, H5N1 or H7N9 avian flu, or H1N1 human swine flu, or any other epidemic disease or any of our plants are identified as a possible source of spreading such epidemic disease, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that have come into contact with those employees. We may also be required to disinfect the affected properties and therefore suffer a temporary suspension of our operations. Any quarantine or suspension of our operations will affect our results of operations.

Mass assemblies or demonstrations obstructing project construction or operation as a result of political protests against certain local governmental policies with regard to relocation compensation or environmental matters may occur, which may adversely affect our ability to manage and develop our projects.

Moreover, the PRC has experienced natural disasters like fires, earthquakes, floods and droughts in the past few years, which have resulted in the loss of lives, injuries, the destruction of assets and the disruption of the operations of certain businesses. Natural disasters may cause construction of our plants, infrastructure or facilities to be significantly delayed. In addition, the types and quantities of pollutants in the wastewater that we treat may increase unexpectedly due to a number of factors, including the occurrence of natural disasters or industrial accidents, increases in

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## RISK FACTORS

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levels of manufacturing activities, increases in water consumption or shortages of water supplies. In the event that such increase in pollution or contamination occurs and we are unable to adequately and efficiently treat the contaminated water or remove pollutants from wastewater, we could be held liable for human exposure to dangerous substances in treated wastewater or environmental damage. Environmental damage may also result from the handling, storage or disposal of hazardous substances. The laws governing such environmental risks are subject to change and any failure to comply with them by us may result in significant fines or penalties. Any of the foregoing could subject us to liability and damage our reputation, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Any future occurrence of severe natural disasters in the PRC may adversely affect the PRC economy and as a result, our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics, or the measures taken by the PRC government or other countries in response to such disasters and epidemics, will not seriously disrupt our operations or those of our suppliers, which may have an adverse effect on our business, financial condition, results of operations and prospects.

**Changes in government control of currency conversion and in PRC foreign exchange and funds transfer regulations may adversely affect our business operations.**

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of the PRC. We receive all of our revenues in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of the PRC for capital-account transactions, such as the repatriation of equity investment in the PRC and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Our choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in the PRC. Our investment decisions are also affected by various other measures taken by the PRC government relating to the PRC wastewater treatment, water environment treatment, water supply, reusable water, wastewater source heat pump and sludge treatment and disposal projects industries, including those disclosed in the section headed “Regulatory Overview” in this Prospectus. In addition, our transfer of funds to our PRC subsidiaries is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to registration with PRC governmental authorities in case of shareholder loans to the extent that the shareholder loans do not exceed statutory limits. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.



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## RISK FACTORS

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**PRC regulations on direct investment and loans by offshore holding companies to PRC entities may delay or limit us from making additional contributions or loans to our PRC subsidiaries**

Any capital contribution or loans that we, as a company incorporated in Bermuda, make to our PRC subsidiaries, including with the proceeds from our Listing, are subject to PRC regulations. For example, any of our loans to our qualified PRC subsidiaries cannot exceed statutory limits, and any such loans must be registered with the local branch of SAFE. In addition, our additional capital contributions to some of our PRC subsidiaries must be recorded by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these records or make the registrations on a timely basis, or at all. If we fail to obtain such approvals or records or make the registrations, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be 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.

**The enforcement of the PRC Labor Contract Law (《中華人民共和國勞動合同法》) and increases in labor costs in the PRC may adversely affect our business and our profitability.**

The PRC Labor Contract Law and its implementation rules impose more stringent requirements on employers with regard to entering into written employment contracts, hiring temporary employees and dismissing employees. The PRC Labor Contract Law and its implementation rules also establish requirements relating to, among other things, minimum wages, severance payments and non-fixed term employment contracts, time limits for probation periods as well as the duration and the number of times that an employee can be placed on fixed-term employment contracts. It also provides that social insurance is required to be paid on behalf of employees and that employees are entitled to unilaterally terminate the labor contracts if this requirement is not satisfied.

In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which came into effect on January 1, 2008, and its implementation measures, which were promulgated and became effective on September 18, 2008, employees who have served more than one year for an employer are entitled to paid annual leave ranging from five to 15 days, depending on their length of service. Employees who waive such annual leave at the request of employers shall be compensated at a rate of three times of their normal salaries for each waived annual leave day. Such new laws and regulations may increase our labor costs. Any significant increases in our labor costs or the occurrence of disputes with our employees could have a material and adverse effect on our business, financial condition, results of operations and prospects.

**A failure to comply with PRC regulations regarding the registration of shares and share options held by our employees who are PRC citizens may subject such employees or us to fines and legal or administrative sanctions.**

Pursuant to the Implementation Rules of the Administrative Measures on Individual Foreign Exchange (《個人外匯管理辦法實施細則》), promulgated on January 5, 2007 and implemented in February 2007 by SAFE and the Notices on Issues Concerning the Foreign Exchange Administration

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## RISK FACTORS

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for Domestic Individuals Participating in Share Incentive Plans of Overseas Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the “Stock Option Rules”), promulgated on February 15, 2012, PRC citizens or residents who will be granted shares or share options by an overseas-listed company according to its employee shareholding plan, share option plan or other similar share incentive plans will be required to, through the PRC subsidiary of such overseas-listed company or a qualified PRC agent appointed by the PRC subsidiary, register with SAFE and complete certain other procedures related to the share option or share incentive plan. Currently, foreign exchange income of the participating PRC residents received from the sale of share and dividends distributed by the overseas listed company are required to be fully remitted into domestic foreign currency account of the PRC subsidiary or the qualified PRC agent before the distribution to such participants. In addition, the PRC subsidiary or the qualified PRC agent required to amend or deregister the registrations with SAFE in case of any material change in, or termination of, the share incentive plans, within the time periods provided by the Stock Option Rules. Our PRC resident employees who will be the participants of our share incentive plan will be subject to these rules. After the Listing, we will urge the relevant employees, through our relevant PRC subsidiary or qualified PRC agent appointed by us, to conduct the registration and other procedures with SAFE. However, if our domestic employees fail to comply with these rules, our domestic employees may be subject to fines and legal or administrative sanctions.

**There are considerable uncertainties concerning the proposed pollutant discharge quota trading scheme and we may not be able to obtain the expected benefit as a result.**

The PRC government applies a system for controlling the total amount of pollutants discharged, such as COD and sulfur dioxide, based on relevant PRC laws and regulations such as the Law of the People’s Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》). The total amount of pollutants that can be discharged by each province is determined by the PRC government. Based on such determination, each province allocates the pollutant discharge quota among cities and counties at its own discretion. In turn, each city or county then sets the pollutant discharge quota for each pollutant discharging unit under its jurisdiction.

There are no national laws or regulations issued by the PRC government governing the trading or transfer of the pollutant discharge quota. The environmental protection authorities are entitled to reduce or cancel the pollutant discharge quota based on a number of factors, such as the adjustments of various discharging standards for pollutants, total pollutant discharging amount allocated or any new environmental protection laws and regulations promulgated with respect to pollutant discharge. Therefore, due to the considerable uncertainties involved in the proposed trading scheme, we may not obtain the economic benefits we expected.

**It may be difficult to effect service of process on our Directors or executive officers who reside in the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts.**

A majority of our Directors and senior management members reside in the PRC, and substantially all of our assets, and substantially all of the assets of those persons are located in the PRC.

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## RISK FACTORS

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Therefore, it may be difficult for you to effect service of process upon those persons in the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with Bermuda, the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

**A deterioration of overall market conditions and credit availability from lending institutions in the PRC, including those related to inflation, may significantly affect our business and financial performance.**

Our ability to successfully expand our business operations in the PRC depends on the overall macroeconomic conditions and other conditions of the PRC and on the availability of credit from lending institutions. Due to concerns regarding inflation and overheating of the PRC economy, the PRC government has taken a series of measures in recent years, including adjusting the deposit reserve ratio, as a result of which commercial banks in the PRC have increased interest rates, reducing the availability of credit in the PRC. Stricter lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. Furthermore, recent events illustrate the PRC government's determination to undertake a tightening of monetary policy. We cannot assure you that the PRC government will not implement any additional measures to tighten lending standards or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in money supply and inflation. To control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on State bank lending. Such policies can however lead to a slowdown in economic growth and may have a material adverse effect on our business, financial condition and results of operations.

### RISKS RELATING TO THE LISTING AND OUR SHARES

**Except for our Shares traded on the SGX-ST, there has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.**

Except for our Shares traded on the SGX-ST, prior to the completion of the Global Offering, there has been no public market for our Shares. The Offer Price is the result of negotiations between us and the Joint Representatives (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following the completion of the Global Offering. In addition, there can be no guarantee that an active trading market for our Shares will develop; or, if it does develop, that it will be sustained following the completion of the Global Offering; or that the market price of our Shares will not decline below the Offer Price.

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### **The trading price and trading volume of the Shares may be volatile.**

The trading price of our Shares on the SGX-ST might not be indicative of the expected market price for our Shares on the Hong Kong Stock Exchange following the Listing which is no more than HK\$4.35 and no less than HK\$2.99 per Offer Share. Further, the trading price of our Shares on the SGX-ST has been, and might continue to be subject to substantial fluctuations. The trading price of our Shares could increase or decrease in response to a number of events and factors, including without limitation:

- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;
- regulatory developments affecting us, our customers or our competitors;
- investors' perception of us and of the investment environment;
- the operating and securities price performance of companies that investors consider to be comparable to us;
- acquisitions by us or our competitors;
- the depth and liquidity of the market for the Shares; and
- changes in global financial and credit markets and global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

The volatility can adversely affect the trading price of our Shares regardless of our operating performance. Further, for these reasons amongst others, our Shares might trade at prices that are higher or lower than the attributable net asset value of our Shares. In addition, we cannot guarantee that investors can regain the amount invested. It is possible that investors could lose all or a part of their investment in our Shares.

### **Future sales or perceived sales of a substantial number of our Shares in public markets could adversely affect the prevailing market price of our Shares and our ability to raise capital in the future.**

The market price of our Shares could decline as a result of future sales of a substantial number of our Shares or other securities relating to our Shares in the public market, or the issuance of new shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also

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## RISK FACTORS

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materially and adversely affect our ability to raise capital at a time and on terms favorable to us. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings.

**Difficulties in enforcing your shareholder rights because we are incorporated in Bermuda and the laws of Bermuda for minority shareholders' protection may be different from those under the laws of Hong Kong and other jurisdictions.**

We are an exempted company incorporated in Bermuda with limited liability, and the laws of Bermuda differ in some respects from those of Hong Kong or other jurisdictions where investors might be located. Our corporate affairs are governed by the Memorandum and Bye-laws, the Companies Act and the laws of Bermuda. The laws of Bermuda relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedents in existence in Hong Kong and other jurisdictions. This could mean that the remedies available to our Company's minority Shareholders may be different from those they would have under the laws of Hong Kong and other jurisdictions.

**Potential investors will experience immediate and substantial dilution as a result of the Listing and could face future dilution as a result of future financings.**

Potential investors will pay a price per Share that substantially exceeds the per Share value of our net tangible assets and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Listing. As a result, if we were to distribute our net tangible assets to the Shareholders immediately following the Listing, potential investors would receive less than the amount they paid for their Shares.

We believe that our current cash and cash equivalents, anticipated cash flows from operations and the proceeds from the Listing will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments relating to our existing operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of new equity or equity-linked securities of us other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in us may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares. Alternatively, if we meet such funding requirements by way of additional debt financing, we may have restrictions placed on us through such debt financing arrangements which may:

- limit our ability to pay dividends or require us to seek consent prior to the payment of dividends;
- require us to dedicate a substantial portion of our cash flows from operations to service our debt, thereby reducing the availability of our cash flows to fund capital expenditures, working capital requirements and other general corporate needs; and

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## RISK FACTORS

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- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

**The time lag of the transfer of Shares between the Hong Kong and Singapore markets could be longer than expected, and our Shareholders might not be able to settle or realize any Share sale during this period.**

There is no direct trading or settlement between the stock exchanges of Singapore and Hong Kong. To enable the transfer of Shares between the two stock exchanges, our Shareholders are required to comply with specific procedures and bear the necessary costs. Under normal circumstances and assuming that there are no deviations from the usual share transfer procedures, our Shareholders can expect a normal transfer from the Bermuda Principal Registrar to the Hong Kong Share Register to complete within 15 Business Days and from the Hong Kong Share Register to the Bermuda Principal Registrar within 15 Business Days depending on whether our Shares are registered under CCASS, CDP or in the name of our Shareholders. For details, see “Listings, Registration, Dealings and Settlement — Transfer of Shares”. However, we cannot assure you that the transfer of Shares will be completed in accordance with this timeline. There could be unforeseen market circumstances or other factors that could delay the transfer, thereby preventing our Shareholders from settling or effecting the sale of their Shares.

### **Difference in characteristics between the Singapore and Hong Kong stock markets.**

Our Shares are listed and traded on the SGX-ST Main Board. Following the Listing, it is our current intention that our Shares will continue to be traded on the SGX-ST Main Board. Our Shares traded on the Hong Kong Stock Exchange will be registered by the Hong Kong Share Registrar. As there is no direct trading or settlement between the stock markets of Singapore and Hong Kong, the time required to transfer shares between the Bermuda Principal Registrar and the Hong Kong Share Register could vary and there is no certainty when transferred Shares will be available for trading or settlement. The SGX-ST Main Board and the Main Board of the Hong Kong Stock Exchange have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules and investor bases (including different levels of retail and institutional participation). As a result, the trading price of our Shares on the SGX-ST Main Board and the Main Board of the Hong Kong Stock Exchange might not be the same.

Further, fluctuations in the price of our Shares on the SGX-ST Main Board could adversely affect the price of our Shares on the Main Board of the Hong Kong Stock Exchange, and vice versa. Moreover, fluctuations in the exchange rate between Singapore dollars and Hong Kong dollars can also adversely affect the trading prices of our Shares on the SGX-ST Main Board and the Main Board of the Hong Kong Stock Exchange. Due to the different characteristics of the stock markets of Singapore and Hong Kong, the historical prices of our Shares on the SGX-ST Main Board might not be indicative of the performance of our Shares on the Main Board of the Hong Kong Stock Exchange after the Listing. You should therefore not place undue reliance on the prior trading.

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## RISK FACTORS

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### **We cannot guarantee that we will pay dividends.**

We have declared final dividends of HK\$52.3 million and HK\$77.0 million for the years ended December 31, 2016 and 2017, and an interim dividend of approximately HK\$74.6 million for the six months ended June 30, 2018. We have approved a final dividend of HK\$77.2 million for the year ended December 31, 2018, where eligible Shareholders (being our Shareholders as at April 17, 2019) could elect between a cash dividend and a scrip dividend. The dividend payments should not be used by potential investors as a guide to the future dividend policy of our Group. There is no assurance that dividends will be declared or paid in the future, at a similar level or at all. The past dividend rates should not be used as a reference or basis to determine the amount of dividends in the future. Any declaration of dividends will be proposed by our Directors after taking into account our operations, earnings, financial condition, cash requirement and availability and the amount of any dividends will depend on various factors, including, without limitation, and other factors that our Directors deem relevant at such time. As at the Latest Practicable Date, we did not have a formal dividend policy. While we currently do not have any dividend plans in the foreseeable future, we may re-evaluate in the future and the amount of dividends to be distributed to our Shareholders, if any, in the future will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. No withholding tax is imposed on dividend payments made, whether to resident or non-resident Shareholders. For further details of our past dividend payments, see “Financial Information — Dividend Policy”. We cannot guarantee if and when we will pay dividends in the future.

### **We are subject to Hong Kong and Singapore listing and regulatory requirements concurrently.**

As we are listed on the SGX-ST Main Board and will be listed on the Main Board of the Hong Kong Stock Exchange, we will be required to comply with the listing rules (where applicable) and other regulatory regimes of both jurisdictions, unless otherwise agreed by the relevant regulators. Accordingly, we may incur additional costs and resources in complying with the requirements of both jurisdictions.

### **Bermuda taxes may differ from tax laws of other jurisdictions, including Hong Kong.**

Our Company is incorporated in Bermuda. Prospective investors should consult their tax advisers concerning the overall tax consequences of acquiring, owning, or selling the Shares. Bermuda tax law may differ from the tax laws of other jurisdictions, including Hong Kong. For details, see “Appendix III — Summary of the Constitution of the Company and Bermuda Company Law”.

### **We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Dual Listing.**

Before the publication of this Prospectus, there may be press and media coverage which contains certain information regarding the Listing and us that is not set out in this Prospectus. We have not authorized the disclosure of such information in any press or media. We do not accept any

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## RISK FACTORS

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responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this Prospectus is inconsistent or conflicts with the information contained in this Prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information.

**We cannot guarantee the accuracy of facts, forecasts and other statistics obtained from official governmental sources or other sources contained in this Prospectus.**

Certain facts, statistics and data contained in this Prospectus relating to the PRC, the PRC and global economy, individual markets within the PRC and the industries where we operate our business have been derived from various official government publications or other third-party reports we generally believe to be reliable, and we can guarantee neither the quality nor the reliability of such source materials. We have taken reasonable care in the reproduction or extraction of the official government publications or other third-party reports for the purpose of disclosure in this Prospectus and 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 such source materials.

They have not been prepared or independently verified by us or the Joint Sponsors or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC and Hong Kong. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this Prospectus may be inaccurate or may not be comparable to statistics 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 the case may be in other jurisdictions. In all cases, you should give due consideration as to how much weight or importance they should attach to or place on such facts.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Prospectus misleading.

### UNDERWRITING

For applicants under the Hong Kong Public Offering, this Prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about Monday, April 29, 2019, subject to determination of the pricing of the Offer Shares. If, for any reason, the Offer Price is not agreed among us and the Joint Representatives (on behalf of the Underwriters), the Global Offering will not proceed. For further details about the Underwriters and the underwriting arrangements, please refer to the section entitled "Underwriting" in this Prospectus.

### INFORMATION ON THE GLOBAL OFFERING

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Neither the delivery of this Prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this Prospectus or imply that the information contained in this Prospectus is correct as of any date subsequent to the date of this Prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section entitled "Structure of the Global Offering" in this Prospectus, and the procedures for applying for the Hong Kong Public Offer Shares are set out in the section entitled "How to Apply for Hong Kong Public Offer Shares" in this Prospectus and in the relevant Application Forms.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed among the Joint Representatives (on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, April 29, 2019 and, in any event, not later than Monday, April 29, 2019 (unless otherwise determined between the Joint Representatives (on behalf of the Underwriters) and our Company). If, for whatever reason, the Offer Price is not agreed between the Joint Representatives and our Company on or before Monday, April 29, 2019, the Global Offering will not become unconditional and will lapse immediately.

### RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required to, or be deemed by his acquisition of the Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this Prospectus and the related Application Forms.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this Prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus, and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Public Offer Shares have not been publicly offered or sold directly or indirectly in the PRC or the U.S.

### LISTINGS AND DEALINGS

#### Application for Listing on the Hong Kong Stock Exchange

Our Shares are currently listed on the SGX-ST. An application has been made to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, (i) the Shares in issue and listed on the SGX-ST Main Board; and (ii) the Offer Shares to be issued pursuant to the Global Offering. Our listings on both the Hong Kong Stock Exchange and the SGX-ST will be dual primary listings. Consequently, unless otherwise agreed by the SGX-ST or, as the case may be, the Hong Kong Stock Exchange, our Company must comply with the Hong Kong Listing Rules and the Listing Manual and any other relevant regulations and guidelines in Hong Kong and Singapore which are applicable to us. In the event where there is a conflict or inconsistency between the requirements of the listing rules of the two stock exchanges, the Company will comply with more onerous requirements. Our Directors will use their best endeavors to ensure that no release of information will be made in Singapore unless a simultaneous release is made in Hong Kong and vice versa.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Our Directors confirmed that our Company has been in compliance with relevant applicable laws and listing rules of Singapore during their respective terms of office. In addition, each of our Directors has confirmed that he/she has been in compliance with relevant applicable laws of Singapore and Listing Manual during their respective terms of office.

As Shareholders' approval is being sought for (i) the proposed Listing and Global Offering; and (ii) the proposed adoption of the new Bye-Laws to, amongst other things, comply with the requirements of the Hong Kong Listing Rules and the Listing Manual a circular in relation to such matters was submitted to the SGX-ST for clearance on August 17, 2018, together with an additional listing application for the dealing in, listing of and quotation of the Offer Shares on the SGX-ST Main Board (the "ALA"). On September 26, 2018, our Company received the requisite clearance for the contents of the circular, as well as the approval-in-principle of the ALA. Such circular was dispatched by our Company on October 24, 2018 to our Shareholders. A special general meeting of our Company was consequently held on November 16, 2018 whereby resolutions were passed for, inter alia, the approval of (i) the proposed Listing and Global Offering; and (ii) the proposed adoption of the new Bye-Laws. Save as disclosed aforesaid, no approval from the SGX-ST is required for the proposed Listing and the Global Offering, and the proposed adoption of the new Bye-Laws.

Details of the arrangement for the removal of Shares from the principal share register or any branch share register to the Hong Kong share register or from the Hong Kong share register to the principal share register or any branch share register are set out in the section headed "Listings, Registration, Dealings and Settlement" in this Prospectus.

### PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Shares or exercising any rights attached to them. Our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or advisors or any other person or party involved in the Global Offering do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Shares or exercising any rights attached to them.

### OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option and stabilization are set out in "Structure of the Global Offering" in this Prospectus.

### PROCEDURE FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The procedures for applying for the Hong Kong Public Offer Shares are set out in the section entitled "How to Apply for Hong Kong Public Offer Shares" of this Prospectus and on the related Application Forms.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Particulars of the structure of the Global Offering, including its conditions, are set out in the section entitled “Structure of the Global Offering” of this Prospectus.

### **SHARE REGISTRAR AND HONG KONG STAMP DUTY**

Our Company’s principal share register will be maintained by its principal share registrar and transfer office, Conyers Corporate Services (Bermuda) Limited, in Bermuda. All of the Shares allocated pursuant to the Global Offering will be registered on the Company’s share register to be maintained in Hong Kong by its Hong Kong Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong. No stamp duty is payable by applicants in the Global Offering. Dealings in the Shares registered in our Company’s Hong Kong Share Registrar will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the vendor on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares. Unless determined otherwise by our Board, dividends payable in Hong Kong dollars in respect of Shares will be paid to the shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the shareholders’ risk, to the registered address of each shareholder or if joint shareholders, to the registered address of that shareholder whose name stands first in the register in respect of the joint holding, or to such person and such address as the shareholder or joint shareholders may in writing direct.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

### **COMMENCEMENT OF DEALINGS IN SHARES**

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Wednesday, May 8, 2019. Shares will be traded in board lots of 1,000 Shares each.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### LANGUAGE

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, the English version of this Prospectus shall prevail. However, the English names of the PRC nationals, entities, departments, authorities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

### ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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In preparation for the Global Offering, we have applied to the Hong Kong Stock Exchange for the following waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules:

### MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Hong Kong Listing Rules, our Company must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. As at the Latest Practicable Date, our Company has two executive Directors. Save for Mr. An Xuesong (“**Mr. An**”) who is ordinarily based in Hong Kong, the other executive Director currently resides in the PRC. Our headquarters and business operations are principally located, managed and conducted in the PRC. As the executive Directors play very important roles in our Company’s business operations, it would be more efficient and in our best interests for them to be based in the places where our Group has significant operations. Furthermore, we consider that it would be impractical and commercially unnecessary for our Company to appoint additional executive Directors who are ordinarily resident in Hong Kong or to relocate its existing PRC based executive Director to Hong Kong merely for the purpose of complying with Rule 8.12 of the Hong Kong Listing Rules. Therefore, our Company currently does not, and in the foreseeable future will not, have two executive Directors who are ordinarily resident in Hong Kong.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Hong Kong Listing Rules. In order to maintain regular and effective communication with the Hong Kong Stock Exchange, we have implemented the following measures:

- pursuant to Rule 3.05 of the Hong Kong Listing Rules, we have appointed Mr. An, an executive Director and the chief executive officer of our Company, and Ms. Peng Pei (“**Ms. Peng**”), the joint company secretary, as our authorized representatives, who will serve as our Company’s principal channel of communication with the Hong Kong Stock Exchange. Mr. An is ordinarily resident in Hong Kong and although Ms. Peng Pei resides in Singapore, she has valid travel documents to visit Hong Kong. Each of the authorized representatives will be available to meet with the Hong Kong Stock Exchange within a reasonable period of time upon request and will be readily contactable by telephone, facsimile and/or email;
- any meetings between our Directors and the Hong Kong Stock Exchange will be arranged through the authorized representatives or the compliance adviser of our Company or directly with our Directors within a reasonable time frame. We will inform the Hong Kong Stock Exchange promptly in respect of any changes in the authorized representatives and/or our compliance adviser;
- we have provided each of our authorized representatives and the Hong Kong Stock Exchange with the contact details of each Director, including their mobile phone numbers,

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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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office phone numbers, facsimile numbers and email addresses. Each of our authorized representatives has means to contact all members of the Board (including our independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact our Directors for any reason;

- our Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents and visas to visit Hong Kong, and are able to meet with the Hong Kong Stock Exchange, when required, upon reasonable notice;
- we have, in compliance with Rule 3A.19 of the Hong Kong Listing Rules, appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor, who will serve as an additional channel of communication of our Company with the Hong Kong Stock Exchange from the Listing Date to the date when our Company distributes our annual report to our Shareholders for the first full financial year immediately after the Listing. Our compliance adviser has full access at all times to our authorized representatives, our Directors and senior management in order to provide prompt responses to any queries or requests from the Hong Kong Stock Exchange; and
- our Company will appoint a legal advisor as to the laws of Hong Kong after the Listing to advise our Company on its continuing compliance requirements as well as other issues arising under the Hong Kong Listing Rules and other applicable laws and regulations in Hong Kong.

### APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Hong Kong Listing Rules, our Company must appoint a company secretary who satisfies the requirements under Rule 3.28 of the Hong Kong Listing Rules. Rule 3.28 of the Hong Kong Listing Rules provides that the company secretary of a listing applicant must be a person who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

Note 1 to Rule 3.28 of the Hong Kong Listing Rules sets forth the following academic and professional qualifications considered to be acceptable by the Hong Kong Stock Exchange:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the laws of Hong Kong)); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the laws of Hong Kong)).

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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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Note 2 to Rule 3.28 of the Hong Kong Listing Rules sets forth the following factors that the Hong Kong Stock Exchange will consider when assessing an individual's "relevant experience":

- (a) length of employment with the issuer and other issuers and the roles he or she has played;
- (b) familiarity with the Hong Kong Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company has appointed Ms. Peng as one of its joint company secretaries. For Ms. Peng's biography, please refer to the section headed "Directors and Senior Management — Joint Company Secretaries" in this prospectus. Ms. Peng has been our company secretary since January 20, 2017 and has been handling the corporate secretarial matters as well as other legal matters for our Company since then. However, Ms. Peng does not possess the specified qualifications required by Rule 3.28 of the Hong Kong Listing Rules, and may not possess the relevant experience as required by the Hong Kong Stock Exchange. Therefore, our Company has appointed Ms. Ho Wing Tsz Wendy ("**Ms. Ho**"), who is a Hong Kong resident and an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries, to jointly discharge the duties and responsibilities as our company secretaries with Ms. Peng. For Ms. Ho's biography, please refer to the section headed "Directors and Senior Management — Joint Company Secretaries" in this Prospectus.

As our Company is listed on the SGX-ST Main Board, our Company is subject to Singapore laws and regulations, inter alia, the Singapore Companies Act and the Listing Manual. As such, our Directors are of the view that Ms. Peng, by virtue of her respective qualifications and experience, is a suitable person to act as the joint company secretary of our Company and her presence in Singapore enables her to attend to the day-to-day corporate secretarial matters concerning our Company, from the perspective of Singapore laws and the Listing Manual. In view of the above, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rules 3.28 and 8.17 of the Hong Kong Listing Rules.

Given the important role of a company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Hong Kong Listing Rules and other relevant laws and regulations, we have made the following arrangements in connection with the waiver:

- Ms. Peng will endeavor to attend relevant training courses, including briefings on the latest changes to the applicable Hong Kong laws and regulations as well as the Hong



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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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Kong Listing Rules organized by our legal advisor as to the laws of Hong Kong on an invitation basis, and seminars organized by the Hong Kong Stock Exchange for listed issuers from time to time, in addition to the 15-hour minimum requirement under Rule 3.29 of the Hong Kong Listing Rules;

- we have appointed Ms. Ho, who meets the requirements under Rule 3.28 of the Hong Kong Listing Rules, as a joint company secretary to work closely with and to provide assistance to Ms. Peng in the discharge of her duties as a company secretary for an initial period of three years commencing from the Listing Date so as to enable Ms. Peng to acquire the relevant experience (as required under Rule 3.28 of the Hong Kong Listing Rules) to discharge the duties and responsibilities as a company secretary; and
- Ms. Peng will also be assisted by our compliance adviser and our legal advisor as to the laws of Hong Kong on matters in relation to our Company's continuing compliance obligations under the Hong Kong Listing Rules and the applicable laws and regulations.

Before expiry of the initial three-year period, the qualifications of Ms. Peng will be re assessed to determine whether the requirements as stipulated in Rule 3.28 of the Hong Kong Listing Rules can be satisfied and whether further assistance by Ms. Ho to Ms. Peng would be necessary. In the event that Ms. Peng has obtained relevant experience under Rule 3.28 of the Hong Kong Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary for our Company.

### INSPECTION OF LEGISLATION AND REGULATIONS

Rule 19.10(6) of the Hong Kong Listing Rules provides that an overseas issuer must offer for inspection a copy of any statutes or regulations which are relevant to the summary of the regulatory provisions of the jurisdiction in which the overseas issuer is incorporated. In the case of our Company, these include the Bermuda Companies Act, the Securities and Futures Act of Singapore, the Singapore Takeovers Code and the Listing Manual. These copies of legislation are lengthy and it would be difficult to deliver copies to Hong Kong in physical format. In addition, these copies of legislation can be readily accessed via the internet free of charge. For further details about how to access these copies of legislation via the internet, please refer to the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" as set out in Appendix VI to this Prospectus.

Our Company has sought, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 19.10(6) of the Hong Kong Listing Rules.

### CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain transactions, which will constitute non-exempt continuing connected transactions for our Company under the Hong Kong

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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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Listing Rules following completion of the Global Offering. We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver pursuant to Rule 14A.105 of the Hong Kong Listing Rules from strict compliance with the announcement and independent Shareholders' approval requirements under Rules 14A.35 and 14A.36 of the Hong Kong Listing Rules for certain continuing connected transactions. The details of such non-exempt continuing connected transactions and the corresponding waiver are set out in the section titled "Connected Transactions" in this Prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Address	Nationality
<b>Non-Executive Director and Chairman</b>		
Mr. Wang Tianyi (王天義)	Room 7, 8/F, Block 26 Heng Fa Chuen Chai Wan Hong Kong	Chinese
<b>Executive Directors</b>		
Mr. An Xuesong (安雪松)	Flat E, 18/F, Hang Shun Mansion 76 Jaffe Road Wan Chai Hong Kong	Chinese
Mr. Luo Junling (羅俊嶺)	Flat 55-1802, Yushan Lingxiu Yingrui Road, Yunting Jiangyin City Jiangsu Province PRC	Chinese
<b>Independent Non-Executive Directors</b>		
Mr. Zhai Haitao (翟海濤)	Flat B, 54/F, Highcliff 41D Stubbs Road Hong Kong	Chinese
Mr. Lim Yu Neng Paul (林御能)	134 Holland Grove View Singapore 276284	Singaporean
Ms. Cheng Fong Yee (鄭鳳儀)	#07-84, APT Block 320 Jurong East Street 31 Singapore 600320	Singaporean
Ms. Hao Gang (郝剛)	Flat D, 16/F, Block 8 Lok Shun Path Royal Ascot Shatin, New Territories Hong Kong	Chinese

Please refer to the section titled “Directors and Senior Management” in this Prospectus for further information with respect to our Directors.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors

China International Capital Corporation  
Hong Kong Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

China Everbright Capital Limited  
24/F, Lee Garden One  
33 Hysan Avenue, Causeway Bay  
Hong Kong

#### Joint Representatives

China International Capital Corporation  
Hong Kong Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

China Everbright Securities (HK) Limited  
24/F, Lee Garden One  
33 Hysan Avenue, Causeway Bay  
Hong Kong

#### Joint Global Coordinators

China International Capital Corporation Hong  
Kong Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

China Everbright Securities (HK) Limited  
24/F, Lee Garden One  
33 Hysan Avenue, Causeway Bay  
Hong Kong

CEB International Capital Corporation Limited  
22/F, AIA Central  
1 Connaught Road Central, Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Joint Bookrunners

China International Capital Corporation Hong  
Kong Securities Limited  
29/F, One International Finance Centre  
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China Everbright Securities (HK) Limited  
24/F, Lee Garden One  
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Hong Kong

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ABCI Capital Limited  
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50 Connaught Road Central  
Hong Kong

CMB International Capital Limited  
45F, Champion Tower  
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Central  
Hong Kong

Shenwan Hongyuan Securities (H.K.) Limited  
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### Joint Lead Managers

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China Everbright Securities (HK) Limited  
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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### **Legal Advisors to the Company**

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*As to PRC law*  
Zhong Lun Law Firm  
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Appleby  
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Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*As to PRC law*  
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**Auditors**

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Singapore 048583

**Independent Industry Consultant**

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Shanghai, PRC

**Receiving Banks**

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CMB Wing Lung Bank Limited  
45 Des Voeux Road Central  
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**Compliance Advisor**

Anglo Chinese Corporate Finance, Limited  
40<sup>th</sup> Floor  
Two Exchange Square  
8 Connaught Place  
Central  
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## CORPORATE INFORMATION

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<b>Registered office</b>	Clarendon House 2 Church Street Hamilton HM11, Bermuda
<b>Head Office</b>	26/F, Block A, Oriental Xintiandi Plaza No. 1003 Shennan Avenue Futian District Shenzhen, PRC 518000
<b>Principal Place of Business in Hong Kong</b>	Room 3601, 36/F Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Company's website</b>	www.ebwater.com <i>(The contents of this website do not form part of this Prospectus)</i>
<b>Joint Company Secretaries</b>	Ms. Peng Pei 9 Battery Road #20-02 MYP Centre Singapore 049910  Ms. Ho Wing Tsz Wendy (HKICS) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Authorized Representatives</b>	Mr. An Xuesong Flat E, 18/F, Hang Shun Mansion 76 Jaffe Road Wan Chai Hong Kong  Ms. Peng Pei 9 Battery Road #20-02 MYP Centre Singapore 049910
<b>Audit Committee</b>	Mr. Lim Yu Neng Paul ( <i>Chairman</i> ) Mr. Zhai Haitao Ms. Cheng Fong Yee Ms. Hao Gang
<b>Remuneration Committee</b>	Ms. Cheng Fong Yee ( <i>Chairman</i> ) Mr. Zhai Haitao Mr. Lim Yu Neng Paul Mr. Wang Tianyi



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## CORPORATE INFORMATION

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<b>Nomination Committee</b>	Mr. Zhai Haitao ( <i>Chairman</i> ) Mr. Wang Tianyi Mr. Lim Yu Neng Paul
<b>Strategy Committee</b>	Mr. Wang Tianyi ( <i>Chairman</i> ) Mr. An Xuesong Mr. Luo Junling Ms. Hao Gang
<b>Management Committee</b>	Mr. An Xuesong ( <i>Chairman</i> ) Mr. Luo Junling Mr. Wang Yuexing Mr. Wang Guanping Mr. Zhang Guofeng Mr. Sun Linbo Mr. Niu Kesheng Mr. An Pinglin Mr. Wu Zhiguo
<b>Principal Share Registrar and Transfer Office</b>	Conyers Corporate Services (Bermuda) Limited Clarendon House, 2 Church Street Hamilton HM11, Bermuda
<b>Hong Kong Share Registrar and Transfer Office</b>	Boardroom Share Registrars (HK) Limited 2103B, 21/F, 148 Electric Road North Point Hong Kong
<b>Singapore Share Transfer Agent</b>	Boardroom Corporate & Advisory Services Pte. Ltd. 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623
<b>Principal Bankers</b>	Bank of China Limited, Ji'nan Huaiyin Branch 583 Jingqi Road Huaiyin District Ji'nan City Shandong PRC  Bank of China Limited, Shenzhen Shekou Wangu Branch G/F, Huacai Garden, Gongyeqi Road Shekou, Nanshan District Shenzhen PRC

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## CORPORATE INFORMATION

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PRC

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Guangxi  
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Jiangsu  
PRC

Agricultural Bank of China Limited, Guangzhou  
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Tianqiao District  
Ji'nan City  
Shandong  
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## CORPORATE INFORMATION

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Mizuho Bank, Ltd., Hong Kong Branch  
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18 Salisbury Road  
Tsim Sha Tsui, Kowloon  
Hong Kong

China Construction Bank (Asia) Corporation  
Limited  
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Taipei Fubon Commercial Bank Co., Ltd., Hong  
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Central  
Hong Kong

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## INDUSTRY OVERVIEW

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*This section contains certain information which is derived from official government resources and the commissioned Frost & Sullivan Report, reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in our Group.*

*We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in the extraction, compilation and reproduction of the information presented in this section. We have no reason to believe that such information is false or misleading in any material respect or that any part has been omitted that would render such information false or misleading in any material respect. Neither we, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor any of our or their respective directors, officers or representatives or any other person involved in the Listing (other than Frost & Sullivan) have independently verified the information directly or indirectly derived from official government sources, or make any representation as to the accuracy of the information from official government or other third party sources. Such information may not be consistent with and may not have been compiled with the same degree of accuracy or completeness as other information compiled within or outside the PRC. Accordingly, the information derived from official government and other third party sources contained herein may not be accurate and should not be unduly relied upon.*

### SOURCE OF INFORMATION

In connection with the Listing, we have engaged Frost & Sullivan, an independent third party, to conduct a study of the wastewater treatment industry, the water environment management industry, the water supply industry and the reusable water industry in China. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. Frost & Sullivan offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom. We agreed to pay Frost & Sullivan a fee of RMB600,000 for the preparation of the Frost & Sullivan Report.

Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various public and private sources, as well as Frost & Sullivan's market knowledge. Primary research involved interviewing leading industry participants, government officials, and Frost & Sullivan's executives. Secondary research involved reviewing company reports, independent research reports, data based on Frost & Sullivan's own research database, and data from government publications and industry sources. Forecast data is based on historical growth rates as well as government announcements of planned investment in the municipal wastewater treatment and water environment management industry.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade;

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## INDUSTRY OVERVIEW

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(ii) China's social, economic, and political environment is likely to remain stable in the forecast period; and (iii) market drivers such as economic growth and increasing urbanization rate of China, strong and sustained government support, and increasingly high standard for water quality are likely to drive the growth of China's water industry. The research results may be affected by the accuracy of the foregoing assumptions and the choice of the parameter. Our Directors confirm that, as at the Latest Practicable Date, after taking due and reasonable care, there was no material adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information in this Prospectus.

Frost & Sullivan has adopted the following parameter: the weight of one cubic meter is one metric tonne.

### OVERVIEW OF CHINA'S WATER SECTOR

#### Water Resources in China

According to Frost & Sullivan, China is one of the most water-deficient countries in the world. In 2017, China's total water resource was 2,867.5 billion tonnes, but per capita water resource of China was merely 2,059.2 tonnes, approximately one-third of the global average. Water resources are unevenly distributed in China. Generally, water resources are more abundant in South West China and South China where natural water resources are relatively more affluent. Around one-fourth of the provinces in China face extreme water scarcity, which is defined by the United Nations Statistics Bureau as an average annual freshwater per capita of less than 500 tonnes. Water shortage is further exacerbated by the PRC's growing demand for water due to increasingly urbanized population, as well as pollution.

To tackle the above issues, the PRC government has issued a number of policies and incentives to encourage the development of the water industry, including "The Action Plan for Water Pollution Prevention and Control" ("**Clean Water Action Plan**") released in 2015, which involves a massive investment initiative over the next five years and is expected to impose strict supervision and rigid punishment systems against violations in wastewater treatment and discharge.

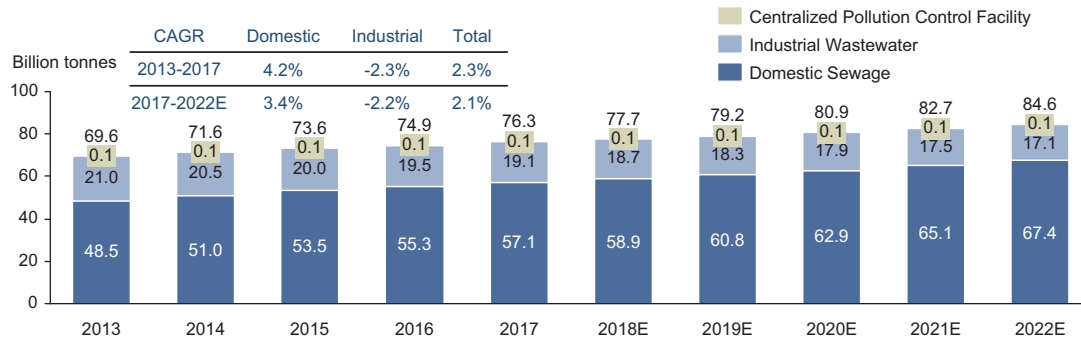
#### Wastewater Discharge in China

The accelerating urbanization process in China generated more water consumption in cities and counties. The discharge volume of domestic sewage has continued to grow since 2013, increasing from 48.5 billion tonnes in 2013 to 57.1 billion tonnes in 2017, representing a CAGR of 4.2%. The industrial wastewater discharge volume showed a decreasing trend in China from 2013 to 2017 primarily due to the industrial upgrading and government's sustaining efforts on industrial pollution control. The industrial wastewater discharge volume decreased from 21.0 billion tonnes in 2013 to 19.1 billion tonnes in 2017. Based on the continuous trend of urbanization, growing population and economic development, domestic sewage discharge volume is expected to grow at a CAGR of 3.4% from 2017 to 2022. In contrast, along with the PRC government's continuous promotion on industrial water saving

## INDUSTRY OVERVIEW

and projects of zero discharge for the wastewater in the industrial segment, the industrial wastewater discharge volume is estimated to be further decreased to 17.1 billion tonnes in 2022.

**Wastewater Discharge Volume Breakdown by Source (China), 2013-2022E**



Source: MEP, Frost & Sullivan

Urbanization is one of the factors that contributes to the increased municipal wastewater discharge volume. According to Frost & Sullivan, from 2013 to 2017, China's urban population increased from 731.1 million to 813.5 million, with a CAGR of 2.7%. During the same period, the urbanization rate in China increased by 4.8%, from 53.7% to 58.5%. By 2022, China's urban population is expected to reach 934.5 million and China's urbanization rate is likely to reach 65.8%. This rapid urbanization progress is expected to increase the growth potential of China's water industry.

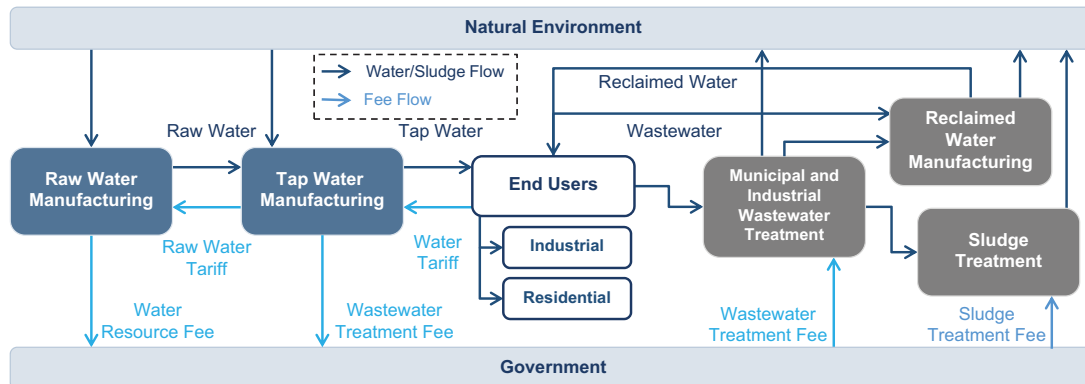
### Industry Chain of China's Water Industry

Tap water manufacturers pay tariff to and obtain raw water from raw water manufacturers. Then tap water is delivered to end users through pipe networks, and the water tariff paid by end users is usually composed of tap water tariff and wastewater treatment fee. Wastewater treatment separates all kinds of pollutants through physical, chemical, and biological processes or transforms them into non-toxic substance.

Reclaimed water generated through certain treatment processes are delivered to end users, primarily for applications such as irrigation, roadway sanitation, car washing, etc. Treatment of wastewater generates sludge, which contains a massive amount of pollutants. Sludge treatment and disposal is one of the key segments after wastewater treatment, which includes a series of processes that stabilize and reduce sludge, make it environmentally safe (sludge treatment), and utilize the treated sludge (sludge disposal). For details of the value chain, please see the following flowchart.

## INDUSTRY OVERVIEW

### Value Chain Mapping for China's Water Industry, 2017



Source: Frost & Sullivan

### Main Market Drivers of China's Water Industry

- Development of China's Economy and Rising Population and Disposable Income:** Consumption of water is directly driven by the development of China's economy, especially the rise of China's urbanization rate. One of the key requirements for an urbanized region is to have a well-established infrastructure system, including water supply and wastewater treatment facilities. From 2017 to 2022, China's urbanization rate is expected to rise from 58.5% to 65.8%, strongly driving the demand for municipal water supply and wastewater treatment.
- Improved Legislation of Environmental Protection and Law Enforcement:** As a core part of China's public service and environmental industry, the water industry enjoys strong and sustained government support. The Chinese government has issued a series of incentive policies to support the development of China's municipal water industry, including "13th Five-year Construction Plan for municipal Wastewater Treatment and Recycling Facilities", "13th Five-year Plan on National Municipal Infrastructure Construction", etc.
- Growing Private Sector Investment and Funding:** From 2014, the PRC government had introduced an official definition of Public-Private-Partnership ("PPP") and a series of laws and policies were formulated to promote the PPP model in the water supply and treatment industry. One of the main incentives of the PPP promotion is to introduce more private investment and capital to the water industry under the PPP business cooperation model, thus driving the future development of China's water industry.

### Water Industry Outlook of China

- Whole industry chain development:** Whole industry chain development in the water industry refers to the wide business expansion and coverage in the water industry. Leading companies in China's water industry have already completed the comprehensive business layout and covered a wide variety of business sectors including water supply, wastewater treatment, water

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## INDUSTRY OVERVIEW

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reclamation, sludge treatment as well as water environment management. Whole industry chain development is estimated to be an opportunity for those leading players in the water industry to broaden sources of income and achieve large-scale operation.

- ***Diversified Financing Channels of market players:*** As a capital intensive industry, the financing ability of water companies is crucial for sustainable business operation and the large amount of project investment. The financing channels of the players in the water industry are diversified, such as the most common channel debt financing including bank loans, corporate bonds and trust financing. For those publicly listed water groups, equity financing is another major financing channel, including private placement and rights issues. A company's overall competitive strengths like credit status, financial structure, operation scale and project quality are the key factors for water companies to obtain long-term loans and low-cost funding.
- ***Growth potential of rural water industry:*** Compared with the municipal water industry, the rural water industry still demonstrates huge growth potential due to the low treatment rate of wastewater and limited capacities of water facilities. By 2017, the wastewater treatment rate at town level in China was just over 50% and for the township level, the wastewater treatment rate was only around 11%. According to "The Action Plan for Prevention and Treatment of Water Pollution", water environment treatment in rural area is regarded as one of the key segments during the 13th Five-Year Plan period. The prominent market potential of the rural water industry is likely to be another opportunity for the players in the water industry to expand and develop their business in the following years.
- ***Organic and acquisition development model:*** Currently, market participants in the water industry normally adopted two typical development models. One is the organic development model which stands for the sustainable business development in the company's original business sectors. Another model is the acquisition development model which refers to the business extension to new business sectors or areas by ways of merger, acquisition or joint operation with other companies. Leading players in China's water industry normally adopted both the organic and the acquisition development strategies for continuous business scale expansion. Integrated development strategies are expected to be another opportunity and industry consolidation is likely to be one of the major trends in China's water industry.

### CHINA'S MUNICIPAL WASTEWATER TREATMENT INDUSTRY

#### Industry Chain of China's Wastewater Treatment Industry

The wastewater treatment industry consists of three major parts, including (i) residential and industrial wastewater dischargers, (ii) sewage pipe network and (iii) municipal or industrial wastewater treatment plants. Water reclamation and sludge treatment are also emerging segments of the wastewater treatment industry.

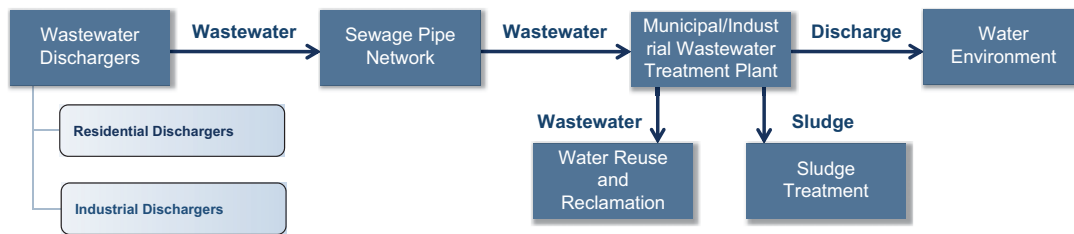
Treatment of wastewater generates sludge which contains a massive amount of pollutants. Proper treatment of sludge is becoming increasingly important. Some wastewater treatment



## INDUSTRY OVERVIEW

companies have started to establish their own sludge treatment plants. Meanwhile, as the PRC government is encouraging the reuse and reclamation of wastewater, this segment is also expected to witness healthy growth in the coming years. Normally, suppliers in the wastewater treatment market in China include sub-contractors that engage in the construction of wastewater treatment plants and also electricity companies which provide the electricity necessary to operate wastewater treatment plants. Customers of those wastewater treatment operators in China are normally local government authorities. For details of the value chain, please see the following flowchart.

**Industrial Chain of Wastewater Treatment Industry (China)**

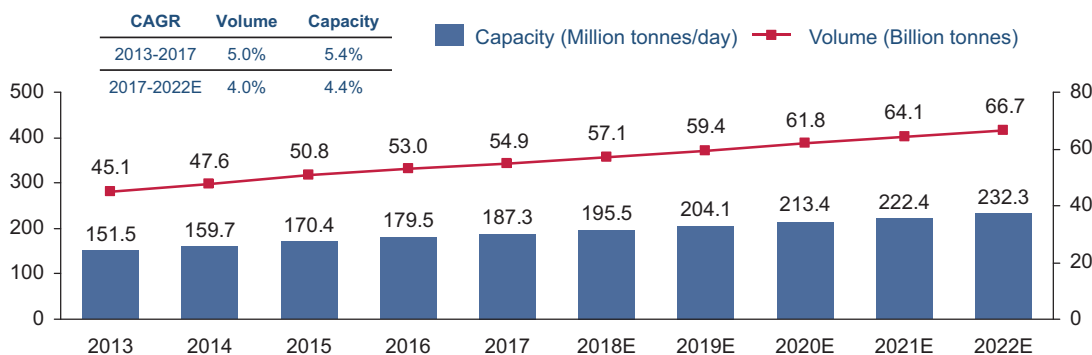


Source: Frost & Sullivan

### Treatment Capacity and Volume of China's Municipal Wastewater Treatment Industry

The total treatment capacity of municipal wastewater treatment plants has increased from 151.5 million tonnes per day in 2013 to 187.3 million tonnes per day in 2017, at a CAGR of approximately 5.4%. The treatment volume of wastewater has increased from 45.1 billion tonnes in 2013 to 54.9 billion tonnes in 2017, at a CAGR of 5.0%. According to Frost & Sullivan, the municipal wastewater treatment volume is expected to hit 66.7 billion tonnes in 2022, with a CAGR of 4.0% from 2017 to 2022, and the municipal wastewater treatment capacity is likely to increase from 187.3 million tonnes per day in 2017 to 232.3 million tonnes per day in 2022, at a CAGR of 4.4%.

**Municipal Wastewater Treatment Capacity and Treatment Volume (China), 2013-2022E**



Source: MOHURD, Frost & Sullivan

### Major Wastewater Treatment Technologies Overview

Wastewater treatment is to separate all kinds of pollutants through physical, chemical, and biological processes or transform them into non-toxic substances. It can be categorized into primary

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## INDUSTRY OVERVIEW

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treatment, secondary treatment, and advanced treatment. Primary treatment removes particles through physical means. Secondary and advanced treatments remove organic contaminants, nitrogen, and phosphorus. Currently, biological treatment takes up to more than 90% of all methods for municipal wastewater treatment in China. Other methods include physical-chemical treatment, merely physical or chemical treatment. Biological treatment, represented by activated sludge treatment, is the preferred method for removing key pollutants in wastewater. There are five major technologies in the biological treatment process, namely, activated sludge process, oxidation ditch, A/O, A2/O and SBR. The latter four technologies are upgrades of different kinds based on the traditional activated sludge process. Currently in China, the activated sludge process, along with its derivatives, is a mature technology and has a dominant position in Chinese municipal wastewater treatment market.

### Entry Barriers of Municipal Wastewater Treatment Market in China

- **Capital Barrier:** The wastewater treatment industry, as a part of the public service industry, is a capital intensive industry. To establish a new wastewater treatment plant requires a huge amount of capital. The payback period of the investment ranged from 5 years to 10 years, or even over 10 years. High requirements on capital poses high barriers to the new entrants with limited financing capability.
- **Government Authorization and Regional Barriers:** Obtaining special authorization from local governments is generally the prerequisite for entry into the operation of water businesses, and local governments have a strong influence over the development of the local municipal water industry. Once having obtained the service concession contract from the local government, the company would establish a strong advantage in the local municipal water market. Those contracts are usually exclusive agreements and the companies tend to be in a more advantageous position in winning the renewal of the contract once the contract expires. Hence, for those incumbent market players with good relationships with local governments, their competitiveness is relatively strong, which also poses a barrier to new players to expand their business into a certain region.
- **Operation and Management Capabilities:** The operation and management of wastewater treatment plants is a complex business. A complete management system needs professional management personnel who have rich experience and expertise in plant operation and management and comprehensive knowledge about water treatment equipment. New participants in the industry face a steep learning curve that is sometimes extremely difficult to conquer.
- **Technology:** Rising standards for wastewater discharge require wastewater treatment operators to upgrade water treatment facilities and adopt advanced treatment technologies for the removal of nitrogen and phosphorus, which also causes the increase of construction costs and operation costs of wastewater treatment operators. For those leading incumbent players in the wastewater treatment market, they normally have already accumulated plenty of experience and technical know-how in the upgrading of wastewater treatment plants. Therefore, it is easier for

## INDUSTRY OVERVIEW

them to control upgrading and operation costs. While for new participants in the wastewater treatment market, obtaining sufficient technical know-how and experience in a short period of time is likely to be a barrier to entering the market.

### Competitive Landscape of Municipal Wastewater Treatment Market in China

The overall Chinese municipal wastewater treatment market is highly fragmented with hundreds of companies in operation, whereby the top five participants together take a 18.7% share in total operation treatment capacity. By 2017, our Group, with a daily municipal wastewater operation treatment capacity of 3.8 million tonnes per day, captured a capacity share of 2.0% and was ranked fifth in China's municipal wastewater treatment industry and was the largest wastewater treatment company among all the central enterprises that have wastewater treatment business.

#### Market Share of Top 5 Players in Municipal Wastewater Treatment Market in terms of Total Operation Treatment Capacity, 2017

Ranking	Municipal Wastewater Treatment Companies	Operation Treatment Capacity as of 2017 (Million tonnes/day)	Market Share
1	Company A	11.1	5.9%
2	Company B	9.5	5.1%
3	Company C	6.4	3.4%
4	Company D	4.2	2.2%
5	<b>The Company</b>	<b>3.8</b>	<b>2.0%</b>
	Top 5	35.0	18.7%
	Others	152.3	81.3%
	<b>Total</b>	<b>187.3</b>	

Source: Company data, Frost & Sullivan

Note: Operation treatment capacity also includes the capacity of O&M projects.

In addition, by 2017, our Group recorded 2.8 million tonnes per day of operation capacity of wastewater treatment in the Bohai Economic Rim and was the third largest wastewater treatment company in the Bohai Economic Rim. Our Group was also one of the three companies in the PRC that was ranked top 10 in both the municipal wastewater treatment market and water environment management market.

### Market Drivers of Municipal Wastewater Treatment Industry in China

- More Stringent and Comprehensive Regulatory Framework:** The 2014 revised version of the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) was ratified on April 24, 2014, by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) to come into effect on January 1, 2015. One of its most significant changes is the imposition of fines for pollution violation. Another feature is that it formally outlines environmental impact assessments (EIA) into law, stipulating that central and provincial governments have EIAs for all economic and technological policies and regulations.

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## INDUSTRY OVERVIEW

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- ***Strong policy support:*** As a core part of China’s public service and environmental industry, the wastewater treatment industry enjoys strong and sustained government support. The PRC government has issued a series of incentive policies to support the development of China’s wastewater treatment industry, including The 13th Five-year Construction Plan for Municipal Wastewater Treatment and Recycling Facilities (《十三五全國城鎮污水處理及再生利用設施建設規劃》), Outline of the 13th Five-year Plan on Economic and Social Development (《國民經濟和社會發展十三五規劃綱要》), Clean Water Action Plan, etc. Moreover, following the lead of the PRC government’s “One Belt, One Road” strategy, more and more infrastructure investments, including water projects, are encouraged to be deployed and funded to neighboring countries and regions, which allow those players in the water industry to further expand their services to other foreign markets through Public-Private-Partnership and other investment methods.
- ***Increasingly high standard on water quality and public’s rising awareness of environmental protection:*** Though China’s latest water quality standard for wastewater discharge has been very stringent, the government is still likely to further improve and release higher discharge standards of wastewater discharge in the future, in order to better control the situation of water pollution in China. This is expected to lead to further increases in water tariffs. Meanwhile, the general public’s awareness of environmental protection has been gradually improving, showcasing increasingly great attention to water quality.

### Threats and Challenges to the Industry

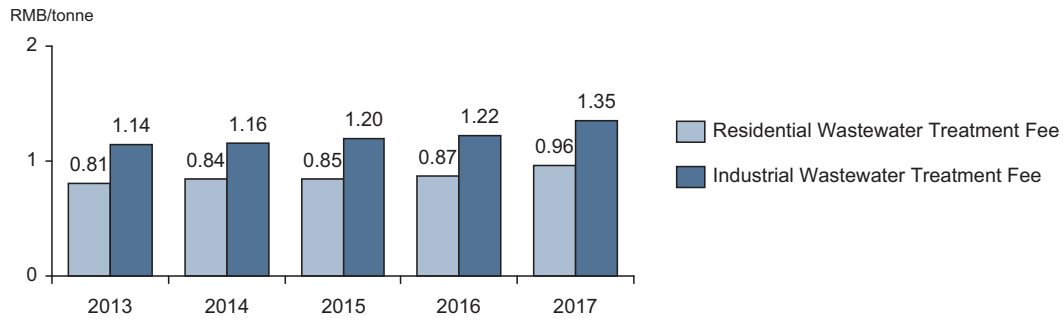
Although the wastewater treatment industry in the PRC has experienced substantial development in recent years, the wastewater pipeline network construction in the PRC is still facing various kinds of problems such as improper combination of sewage pipes and rain water pipes, inappropriate wastewater discharge and pipe connecting by end-users, etc. These problems of wastewater pipeline construction exist in the current wastewater treatment industry in China and are likely to affect the treatment efficiency of water plants and hence pose significant threats and challenges to the wastewater treatment industry.

### Wastewater Treatment Fee

Wastewater treatment fees have experienced steady growth in the past decade. The average wastewater treatment fee for residential users rose from RMB0.81 per tonne in 2013 to RMB0.96 per tonne in 2017, and the average wastewater treatment fee for industrial users rose from RMB1.14 per tonne in 2013 to RMB1.35 per tonne in 2017. With the rising pressure of cost, both residential and industrial wastewater treatment fees are expected to have sustained growth.

## INDUSTRY OVERVIEW

### Average Wastewater Treatment Fee for Residential and Industrial Users (China), 2013-2017

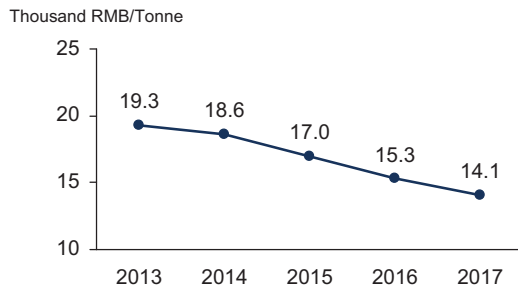


Source: H<sub>2</sub>O China, Frost & Sullivan

### Price for Raw Materials

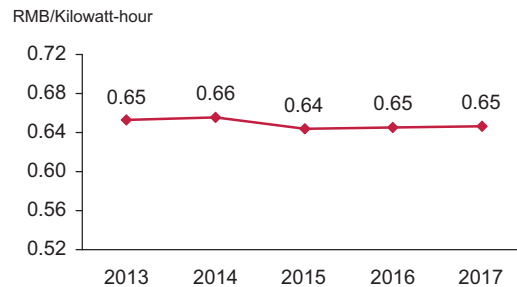
For industrial, municipal wastewater treatment and reclaimed water supply facilities, key production costs include electricity cost and water treatment chemical cost.

#### Price of CPAM (China), 2013-2017



Source: NDRC, NEA, Frost & Sullivan

#### Average Electricity Price for Large Industrial Users, (China), 2013-2017



CPAM (cationic polyacrylamide) is one of the major wastewater treatment chemicals. The price had witnessed a gradual decrease in recent years, dropping from RMB19,300 per tonne in 2013 to RMB14,100 per tonne in 2017, and is expected to have a moderate decline in the short term future. Electricity cost constitutes a large part of the overall cost for wastewater treatment companies. The price of electricity is adjusted by the NDRC. The average electricity price for large industrial users has kept at a stable level during the past three years at approximately RMB0.65 per kilowatt-hour.

Fluctuation of raw material prices is unlikely to exert a significant influence on water enterprises as local government usually adjusts the water tariff according to the fluctuation of water companies' costs.

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## INDUSTRY OVERVIEW

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### CHINA'S WATER ENVIRONMENT MANAGEMENT INDUSTRY

#### Overview of the Water Environment Management Industry

Water environment management projects refer to those packaged all-in-one projects which are systematically designed, built and operated by a single water environment management operator. These projects generally aim for the water environmental treatment of an entire river basin or watershed, generally including river or water basin treatment by ecological remediation, river dredging, riverside landscape construction, etc. and relevant wastewater treatment such as the construction of ancillary wastewater treatment plants and sewage pipe networks. Various water environment management projects normally applied diverse treatment solution packages due to the different contamination conditions and treatment targets of the water environment management projects.

The pricing of water environment management projects is subject to the specific projects contained in the whole project package. The price or investment amount of a water environment management project normally depends on various factors such as specific treatment scope, the treatment area or length of the water body, degree of contamination, treatment techniques, etc.

#### Market Size of Water Environment Management Market in China

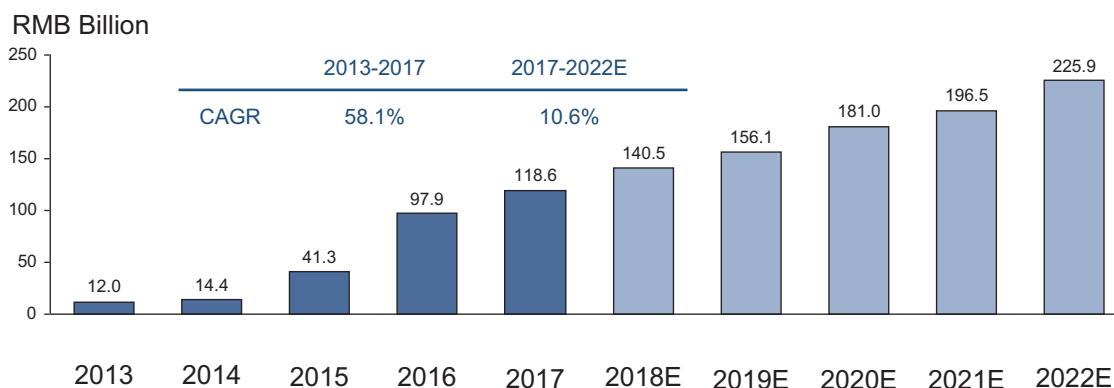
Since 2014, the PRC government began to introduce the PPP model into the water environment management market to improve the initiative of professional social capital which used to focus on the wastewater treatment market, to conduct water environment management projects. The annual contract value of water environment management projects has witnessed substantial growth from RMB12.0 billion in 2013 to RMB118.6 billion in 2017, representing a CAGR of 58.1%. In the foreseeable future, together with the demonstration effect of some well-operated water environment management projects and the government's further investment into the water pollution control industry, the annual contract value of the water environment management market is estimated to further increase at a CAGR of 10.6% from 2017 to 2022. The development of the water environment management market in China started in 2013. Along with the massive promotion of the PPP business model, great public and government concern on the water environment triggered by concentrated outbreak of water pollution incidents in 2014, and the release of Clean Water Action Plan in 2015, water environment management projects gradually sprung up since 2013 and the contract value of the projects showed significant high annual growth during 2013 to 2017. Having experienced market formation and explosive growth at the early stage, the water environment management market in China is expected to enter a sizeable and stable growth track in the forecast period from 2018 to 2022, and the annual contract value of water environment management projects is estimated to be kept at a CAGR of 12.6% with an average annual contract value size of over RMB150 billion.

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## INDUSTRY OVERVIEW

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### Annual Contract Value of Water Environment Management Market (China), 2013 – 2022E



Source: Frost & Sullivan

### Entry Barriers

- **High capital investment:** Water environment management projects require high capital investment, a long period of investment, and complex process of treatment. Many of the projects are implemented in the PPP model, which results in a long investment return period and large capital investment from service providers in construction and operation period. Thus, the funding requirement of these projects is relatively higher than these for service providers. For those new entrants without abundant capital capacity and money flow, this can be a considerable entry barrier.
- **Relevant experience:** Water environment management projects usually involve several business lines, leading to the long investment return period, huge investment, and high complexity. Thus, the government tends to prefer those market participants who have rich experience, a successful track record, and a good reputation. Lack of successful cases and industry experience is one of the entry barriers for new players.

### Competitive Landscape of the Water Environment Management Market in China

Currently, there are hundreds of companies participating in the water environment management market, whereby the top 10 participants together took a 62.1% share by the end of 2017 in terms of overall cumulative contract value of water environment management market.

Our Group, with a total cumulative contract value into water environment management projects of RMB3.9 billion, captured a market share of 1.3% and was ranked 10th in China's water environment management market.

### Market Drivers of the Water Environment Management Industry in China

- **Policy support from the central government:** Policy support from the central government is one of the key drivers for the water environment management market. Along with the issuance of

## INDUSTRY OVERVIEW

Clean Water Action Plan, the PRC government has raised higher treatment standards and requirements for China's water environment and quality. Quantitative criteria as well as qualitative criteria were also established in Clean Water Action Plan. The implementation of these targets and requirements may greatly propel the further development of the water environment management market.

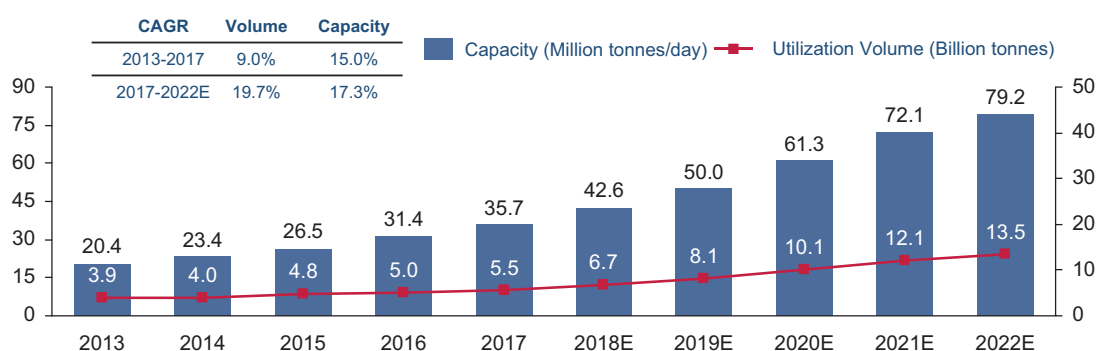
- Generalization of PPP business model:** The PRC government has promoted the PPP business model with big efforts in recent years to effectively allocate social capital. A large amount of PPP projects sprang up, among which water environment related projects constitute a major part. Generalization of the PPP business model offers an excellent opportunity for social capital to engage in the water environment business, which is also estimated to stimulate the market in years to come.
- Severe water environment condition:** Currently, both the surface water and ground water in China are still facing the problem of water pollution. According to the MEP, surface water under some state-controlled sections was still facing contamination. Ground water pollution remains severe with the total proportion of bad to very bad categories still at 66.6% in 2017. Black and odorous water bodies still constitute more than 10% in cities at prefecture level and above. The water environment in China can no longer wait for treatment, which on the other hand implies the great opportunity and growth potential for China's environment management market.

## OTHER INDUSTRIES

### Overview of China's Reusable Water Industry

The contradiction between the limited water resources and continuously increasing water consumption has become increasingly conspicuous in China, and water reuse and reclamation is becoming a feasible solution for this problem. The PRC government is encouraging the reuse and reclamation of wastewater, and this segment is expected to witness healthy growth in the coming years.

**Reclaimed Water Supply Capacity and Utilization Volume (China), 2013-2022E**



Source: MOHURD, Frost & Sullivan



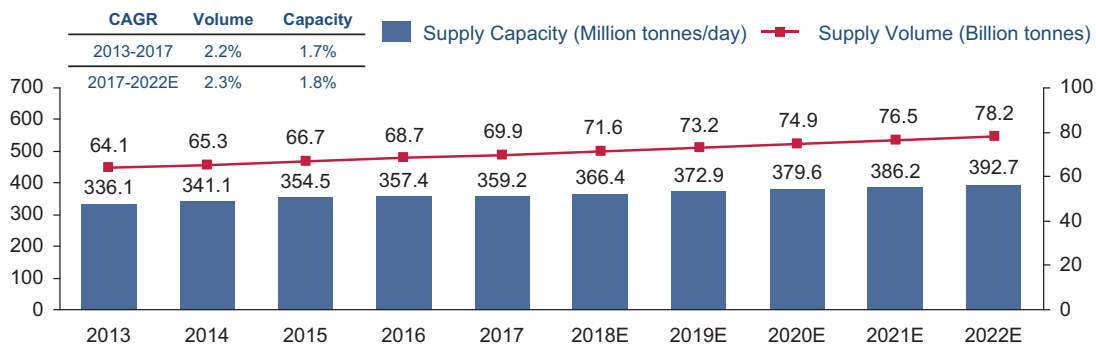
## INDUSTRY OVERVIEW

In 2013, the total production capacity of reusable water supply was 20.4 million tonnes per day, and in 2017 the capacity had reached 35.7 million tonnes per day, representing a CAGR of 15.0%. Meanwhile, the utilization volume of reusable water also increased from 3.9 billion tonnes in 2013 to 5.5 billion tonnes in 2017, with a CAGR of 9.0%. Going forward, both capacity and utilization volume are expected to maintain stable growth, at estimated CAGRs of 17.3% and 19.7%, respectively from 2017 to 2022. By 2022, the total production capacity of the reusable water supply is forecasted to reach 79.2 million tonnes per day and the total utilization volume is expected to reach 13.5 billion tonnes.

### Overview of China's Municipal Water Supply Industry

Municipal water supply consists of raw water production and supply, water treatment and distribution of tap water. Municipal water supply companies construct facilities to obtain raw water from natural water sources, such as rivers, lakes and seas, and deliver raw water to municipal tap-water plants, which filtrate and purify raw water to produce tap water, which is then used for households, production and operation and public service etc.

**Municipal Water Supply Capacity and Supply Volume (China), 2013-2022E**



Source: MOHURD, Frost & Sullivan

Municipal water supply capacity of the PRC grew from 336.1 million tonnes per day in 2013 to 359.2 million tonnes per day in 2017, representing a CAGR of 1.7%. The annual supply volume increased from 64.1 billion tonnes in 2013 to 69.9 billion tonnes in 2017 with a CAGR of 2.2%. The municipal water supply capacity and volume are expected to keep growing at a moderate annual pace of 1.8% and 2.3%, respectively, in the next five years from 2017-2022, reaching 392.7 million tonnes per day and 78.2 billion tonnes in 2021.

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## REGULATORY OVERVIEW

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### OVERVIEW

Our business operations are subject to extensive supervision and regulation by the PRC government. This section sets out (i) an introduction to the major PRC government authorities with jurisdiction over our current operations and (ii) a summary of the main laws, regulations and policies to which we are subject.

### FOREIGN INVESTMENT SYSTEM

According to Catalog of Industries for Guiding Foreign Investment (Revision 2017) (Order of the National Development and Reform Commission and the Ministry of Commerce No.22) (《外商投資產業指導目錄(2017年修訂)》(國家發展和改革委員會、商務部令第24號)) which was jointly promulgated by the National Development and Reform Committee of the PRC (NDRC) and the Ministry of Commerce and implemented on July 28, 2017, and Foreign Investment Access Special Management Measures (Negative List) (2018 Version) (Order of the National Development and Reform Commission and the Ministry of Commerce No.18) (《外商投資准入特別管理措施(負面清單)(2018年版)》(國家發展和改革委員會、商務部令第18號)) which was promulgated on June 28, 2018 and implemented July 28, 2018, industries for foreign investment are classified into the encouraged foreign investment industry catalogue and foreign investment access special management measures (negative list) Management. The construction and operation of water supply plants, reclaimed water plants, wastewater treatment plants and garbage disposal plants belong to the category of encouraged industries for foreign investment.

### CONCESSION IN MUNICIPAL PUBLIC UTILITIES PROJECTS

According to the Circular of the Ministry of Construction on Issuing the Opinions on Accelerating the Marketization of Municipal Public Utilities Industry ( Jian Cheng [2002] No.272) (《建設部關於印發〈關於加快市政公用行業市場化進程的意見〉的通知》(建城[2002]272號)) promulgated and implemented by the former Ministry of Construction on December 27, 2002, the concession system shall be established in the municipal public utilities industries, under which the governments grant enterprises the right to engage in certain products or services of municipal public utilities within a given time limit and scope and specify through contracts and agreements or otherwise the rights and obligations between the governments and the enterprises granted concession. The municipal public utility industries subject to concession include urban water, gas and heat supply, wastewater treatment, garbage disposal and public transport and other industries directly related to social public interests and involving allocation of limited public resources. For the municipal public utilities industries subject to concession, the governments shall select relevant investors or operators following the specified public bidding procedures.

According to the Measures for the Administration on the Concession of Municipal Public Utilities (Order of the Ministry of Housing and Urban-Rural Development of the People's Republic of China No. 126) (《市政公用事業特許經營管理辦法》(中華人民共和國住房和城鄉建設部令第126號)) promulgated by the former Ministry of Construction on March 19, 2004, implemented on May 1, 2004

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and revised on May 4, 2015, for urban water, gas and heat supply, public transport, wastewater treatment, garbage disposal and other industries that are subject to concession according to law, the governments shall select investors or operators of municipal public utilities projects through market competition mechanism, clarifying that they may engage in certain products of municipal public utilities or provide certain services within a given time limit and scope. The competent departments of municipal public utilities of the people's governments of municipalities directly under the central governments, cities, and counties (hereinafter referred to as the Competent Departments) shall be responsible for the specific implementation of the concession of municipal public utilities within their own administrative regions with the authorization of the people's governments. (According to the Law on Organization of Local People's Congresses at Different Levels and Local People's Governments at Different Levels of the People's Republic of China (2015 Amendment) (《中華人民共和國地方各級人民代表大會和地方各級人民政府組織法(2015修正)》) promulgated on August 29, 2015, each department of a local government is under the unified leadership of such local government.) Where the competent departments or enterprises that have obtained concession rights is in breach of the agreement, the party in fault shall be liable for breach of contract, and shall bear compensation liabilities for losses to the other party.

According to the Measures for the Administration on the Concession of Infrastructure and Public Utilities (Order of the NDRC, MOF, MOHURD, the Ministry of Transport, the Ministry of Water Resources and PBOC No. 25) (《基礎設施和公用事業特許經營管理辦法》(國家發展和改革委員會、財政部、住房和城鄉建設部、交通運輸部、水利部、中國人民銀行令第25號)) promulgated by the NDRC, the MOF, the MOHURD, the Ministry of Transport, the Ministry of Water Resources and the PBOC on April 25, 2015 and implemented on June 1, 2015, the competent departments of the relevant industry in people's governments at or above county level or the departments authorized by the governments may, in accordance with the needs of economic and social development, as well as the proposals for concession projects made by the relevant legal persons and other organizations, etc., put forward the implementation plans of concession projects. People's governments at or above county level authorize relevant departments or entities as implementing organizations responsible for relevant implementation of concession projects and specify the specific scope of authorization. The development and reform department, finance department, land and resources department, environmental protection department, housing and urban-rural development department, transport department, water resources department, pricing department, energy department, financial supervision department shall be responsible for the implementation, supervision and administration of relevant concession projects in accordance with their assignment of responsibilities. The implementing organizations shall, in accordance with the approved implementation plans of concession projects, select the grantees of concession rights through bidding, competitive negotiation and other competitive modes and sign concession agreements with grantees of concession rights selected according to law. A concession agreement may, in accordance with the relevant laws, administrative regulations and national regulations, prescribe that the grantees of concession rights could gain earnings by charging users. When the charges are insufficient to cover the construction and operating costs of concession projects and an amount of reasonable earnings, the governments may provide feasibility gap subsidies, including other relevant development and operation rights and interests granted by the governments for concession projects. Parties to concession agreements shall abide by the principle of good faith, and completely fulfill their obligations pursuant to the agreements. Unless otherwise stipulated in laws or

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## REGULATORY OVERVIEW

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administrative regulations, any party of implementation authorities or concessionaires who failed to fulfill the contractual obligations under the concession agreements or their fulfillment of obligations failed to meet the requirements as agreed, shall continue to fulfill their obligations, take remedial measures or compensate for losses.

### PROMOTION ON PPP (PUBLIC-PRIVATE PARTNERSHIP)

According to the Guiding Opinions of the State Council on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment (Guo Fa [2014] No.60) (《國務院關於創新重點領域投融資機制鼓勵社會投資的指導意見》(國發[2014]60號)) promulgated and implemented by the State Council on November 16, 2014, the PRC government encourages social capital's participation in the municipal infrastructure projects including urban water supply, wastewater treatment and garbage disposal by concession, investment subsidy, government's purchase of services and other methods and shall choose eligible operators in accordance with the law. The government may also employ the entrusted operation or transfer-operate-transfer (TOT) and other operation ways to transfer the built municipal infrastructure projects to social capital for operation and management.

According to the Guiding Opinions of the National Development and Reform Commission on Launching the Cooperation between Governments and Social Capitals (Fa Gai Tou Zi [2014] No. 2724) (《國家發展改革委關於開展政府和社會資本合作的指導意見》(發改投資[2014]2724號)) promulgated and implemented by the NDRC on December 2, 2014, PPP mode is mainly applicable to the public services and infrastructural projects which are provided by the government and suitable for marketable operation, such as water supply, wastewater treatment and garbage disposal. Development and reform committees of all provinces and cities shall establish the PPP project library, and shall submit the project progress information to the NDRC prior to the fifth day of each month from January 2015 onwards.

According to the Circular of the Ministry of Finance on Issues Concerning the Promotion and Application of the Public-Private Partnership Model (Cai Jin [2014] No.76) (《財政部關於推廣運用政府和社會資本合作模式有關問題的通知》(財金[2014]76號)) promulgated and implemented by the MOF on September 23, 2014, the Circular of the Ministry of Finance on Issues Concerning the Implementation of the Demonstration Project Cooperated between Governments and Social Capitals (Cai Jin [2014] No.112) (《財政部關於政府和社會資本合作示範實施有關問題的通知》(財金[2014]112號)) promulgated and implemented by the MOF on November 30, 2014 and the Circular of the Ministry of Finance on Regulating the Management of Co-operative Contract between Governments and Social Capitals (Cai Jin [2014] No.156) (《財政部關於規範政府和社會資本合作合同管理工作的通知》(財金[2014]156號)) promulgated and implemented by the MOF on December 30, 2014, government authorities set up series guidelines of the cooperation between governments and social capitals under PPP mode, including project management and co-operative contract management.

### TERMS OF CONCESSION RIGHTS

According to the Measures for the Administration on the Concession of Municipal Public Utilities (Order of the Ministry of Housing and Urban-Rural Development of the People's Republic of

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China No.24) (《市政公用事業特許經營管理辦法》(中華人民共和國住房和城鄉建設部令第24號)) promulgated by the former Ministry of Construction on March 19, 2004, implemented on May 1, 2004 and amended on May 4, 2015 and the Measures for the Administration on the Concession of Infrastructure and Public Utilities (Order of the NDRC, MOF, MOHURD, the Ministry of Transport, the Ministry of Water Resources and PBOC No.25) (《基礎設施和公用事業特許經營管理辦法》(國家發展和改革委員會、財政部、住房和城鄉建設部、交通運輸部、水利部、中國人民銀行令第25號)) which was promulgated by the NDRC, the MOF, the MOHURD, the Ministry of Transport, the Ministry of Water Resources and the PBOC on April 25, 2015 and implemented on June 1, 2015, the term of concession for infrastructure and public utilities shall be determined in light of the industry characteristics, the public products provided or service needs, the project life cycle, the investment payback period, and other integrated factors and shall not exceed 30 years at a maximum. For a concession project of infrastructure and public utilities with large investment scale and long payback period, the government or its authorized department may, in light of the reality of the project, agree on a term of concession exceeding the term as prescribed in the preceding paragraph, with the concessionaire. Upon expiry or early termination of concession agreement, where the infrastructure and public utility shall continue to be operated under concession, implementing institutions shall conduct new selection on concessionaire. Where new selection is conducted upon expiry, the original concessionaire shall be prioritized for such concession under equal conditions.

### PRICING

For wastewater treatment, according to the Regulations on Urban Drainage and Sewage Treatment (Order of the State Council No.641) (《城鎮排水與污水處理條例》(國務院令第641號)) promulgated on October 2, 2013 and implemented on January 1, 2014 by the State Council, where the concession operation contract or the contract on entrusted operation involves the reduction of pollutants and service fees for sewage treatment operation, the competent departments of urban drainage shall consult competent departments of environmental protection and competent price departments. The competent department of urban drainage shall approve the operation service fee for urban sewage treatment facilities in accordance with the implementation of operation and maintenance contract by the urban sewage treatment facilities operation and maintenance unit and the supervision and inspection results of the effluent quality and quantity of the urban sewage treatment facilities by the Department of Environmental Protection. The relevant divisions of the local people's government shall fully disburse the operating service expenses of urban sewage treatment facilities in a timely manner.

For sludge treatment, according to the Circular of the NDRC, the MOF, the MOHURD on the Relevant Issues concerning the Formulation and Adjustment of the Charging Standard for Sewage Treatment (Fa Gai Jia Ge [2015] No.119) (《國家發展改革委、財政部、住房城鄉建設部關於制定和調整污水處理收費標準等有關問題的通知》(發改價格[2015]119號)) promulgated and implemented by the NDRC, the MOF and the MOHURD on January 21, 2015, the charging standard for sewage treatment shall be formulated and adjusted on the comprehensive consideration on factors such as the current condition of water pollution prevention and control and the bearing capacity of the economy and society of the region according to the principles of "Polluter-pays, Equitable Burden Sharing, Cost-reimbursement,

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Reasonable Profit Gaining". The charging standard shall be set for the compensation of the operating cost of sewage treatment and sludge disposal facilities and reasonable profit gaining.

By the end of 2016, the charging standard for sewage treatment of cities shall be adjusted to be not less than RMB 0.95 per ton for residents, and not less than RMB1.4 per ton for non-residents in principle; the charging standard for sewage treatment of counties and the key designated towns shall be adjusted to be not less than RMB0.85 per tonne for residents, and not less than RMB1.2 per ton for non-residents in principle.

For water supply, according to the Measures for the Administration on the Price of Municipal Water Supply (Ji Jia Ge (1998) No.1810) (《城市供水價格管理辦法》(計價格[1998]1810號)) promulgated and implemented on September 23, 1998 and revised and implemented on November 29, 2004 by the former State Development Planning Commission, the former State Planning Commission and the former Ministry of Construction, the sewage treatment fees shall be calculated into the price of municipal water supply and collected according to both the range for municipal water supply and the volume of water used by consumers. The standard for sewage treatment fees shall be reviewed and determined according to the fees on the operation, maintenance and construction of municipal drainage pipeline networks and sewage treatment plants. The competent price departments of the government at or above county level shall be the competent departments for the municipal water supply price. The price of municipal water supply is determined by government in accordance with the principle of unified leadership and hierarchical management and the specific pricing authority shall be executed based on the price management catalog. In determining the price of municipal water supply, a hearing system and an announcement system shall be adopted. The price of municipal water supply consists of the costs of water supply, expenses, taxes and profits. A municipal water supply enterprise shall apply in writing to the competent price departments of the local municipal people's government and send a duplicate of the price-adjusting declaration documents to the competent departments of municipal water supply at the same level when there is a need to adjust the price of water supply. The adjustment for the price of the municipal water supply shall be examined and verified by the competent price departments of the local municipal people's government, carried out upon the approval by the local municipal people's government and reported to the competent price departments and competent departments for the administration of water supply for record. Different on-grid water prices adopted by different water supply enterprises are permitted if there are water plants or pipeline networks operating independently in the city. However, for the consumers of the same kind, the same price shall be adopted.

## QUALITY STANDARD

The water quality of effluent flowing from municipal wastewater treatment plants, exhaust emissions and sludge disposal (control) management and pollutant limits should comply with the standards set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》) (GB18918-2002) (Notice of State Environmental Protection Administration in 2006 No.21) (國家環境保護總局公告2006年第21號) promulgated by the former State Environmental Protection Administration on December 24, 2002, implemented on July 1, 2003 and

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amended on May 8, 2006. According to the Law of the People's Republic of China on the Prevention and Control of Water Pollution (Order of the President No.87) (《中華人民共和國水污染防治法》(主席令第87號)) promulgated by the NPC Standing Committee on May 11, 1984, implemented on November 1, 1984 and amended on May 15, 1996, February 28, 2008 and implemented on June 1, 2008 and amended on June 27, 2017 and implemented on January 1, 2018, the company operating centralized treatment facilities for municipal wastewater is responsible for the quality of the effluent from the municipal wastewater treatment facilities.

The water quality of reclaimed water used for groundwater recharge, industry, agriculture, forestry, animal husbandry, urban non-drinking water, landscape environment should comply with the standards set out in Reclaimed Water Quality Standard (《再生水水質標準》) (SL368-2006) promulgated by the Ministry of Water Resources of the PRC on March 1, 2007 and implemented on June 1, 2007. For reclaimed water used in flushing, road cleaning, fire control, greening, car washing, construction, the reclaimed water quality should comply with the Quality Standard for Municipal Wastewater Reclamation for Municipal Multi-Purpose Uses(《城市污水再生利用城市雜用水水質標準》) (GB/T18920-2002) promulgated by the State Administration of Quality Supervision, Inspection and Quarantine and the National Standardization Management Committee on December 20, 2002 and implemented on May 1, 2003. For reclaimed waters used for landscape, the reclaimed water quality should comply with the Quality Standard for Municipal Wastewater Reclamation for Scenic and Environmental Uses (《城市污水再生利用景觀環境用水水質標準》) (GB/T18921-2002) promulgated by the State Administration of Quality Supervision, Inspection and Quarantine and the National Standardization Management Committee on December 20, 2002 and implemented on May 1, 2003. For reclaimed waters used for industrial cooling, washing, boiler and other productions and processes, the reclaimed water quality should comply with the standards set out in Quality Standard for Municipal Wastewater Reclamation for Industrial Uses (《城市污水再生利用工業用水水質標準》) (GB/T19923-2005) promulgated by State Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ") and Standardization Administration of the PRC on September 28, 2005 and implemented on April 1, 2006. For reclaimed waters used for farm irrigation, the reclaimed water quality should comply with the standards set out in Quality Standard for Municipal Wastewater Reclamation for Farm Irrigation (《城市污水再生利用農田灌溉用水水質標準》) (GB20922-2007) promulgated by AQSIQ and Standardization Administration of the PRC on April 6, 2007 and implemented on October 1, 2007.

### GOVERNMENT SUPERVISION

According to the Measures for the Administration on the Concession of Municipal Public Utilities (Order No. 24 of the Ministry of Housing and Urban-Rural Development of the People's Republic of China) (《市政公用事業特許經營管理辦法》(中華人民共和國住房和城鄉建設部令第24號)) promulgated by the former Ministry of Construction on March 19, 2004, implemented on May 1, 2004 and revised on May 4, 2015, the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (Jian Cheng [2005] No. 154) (《建設部關於加強市政公用事業監管的意見》(建城[2005]154號)) promulgated and implemented by the former Ministry of Construction on September 10, 2005 and Measures for the Administration on the Concession of Infrastructure and Public Utilities (Order No. 25 of the NDRC, MOF, MOHURD, the Ministry of Transport, the Ministry

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of Water Resources and PBOC) (《基礎設施和公用事業特許經營管理辦法》(國家發展和改革委員會、財政部、住房和城鄉建設部、交通運輸部、水利部、中國人民銀行令25號)) which was promulgated by the NDRC, the MOF, the MOHURD, the Ministry of Transport, the Ministry of Water Resources and the PBOC on April 25, 2015 and implemented on June 1, 2015, supervision of municipal public utilities mainly covers market entry and exit, operational safety, product and service quality, price and charging, pipeline network system, market competition order, etc.

- (1) Making disposal of or mortgage on the property they operate without authorization;
- (2) Grave quality or work safety accidents occurring due to poor management;
- (3) Shutting down or going out of business without permission, which seriously influences the public interests and security;
- (4) Other acts prohibited by laws and regulations.

If any concessioner violates laws, administrative regulations and national compulsory standards, which has seriously jeopardized public interests, or caused grave quality or safety accidents or environmental emergencies, the relevant departments shall order the concessioner to make corrections within a specified period and impose administrative punishments according to laws. If the concessioner refuses to make corrections and the circumstances are serious, the concession agreement may be terminated. If the case constitutes a crime, criminal responsibility shall be investigated according to laws.

### CAPITAL FUND SYSTEM

According to the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects (Guo Fa [1996] No.35) (《國務院關於固定資產投資專案試行資本金制度的通知》(國發[1996]35號)) promulgated and implemented by the State Council on August 23, 1996, the Opinion on Utilizing Foreign Funds in the Construction of Municipal Public Utilities (For Trial Implementation) (Jian Ji [1997] No.97) (《關於城市市政公用設施建設利用外資工作的意見(試行)》(建計[1997]97號)) promulgated and implemented by the former Ministry of Construction (now known as MOHURD, as referred to hereinafter) on May 20, 1997, the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects (Guo Fa [2009] No.27) (《國務院關於調整固定資產投資項目資本金比例的通知》(國發[2009]27號)) promulgated and implemented by the State Council on May 25, 2009, and the Notice of the State Council on Adjusting and Improving the Capital Fund System of Fixed Asset Investment Projects (Guo Fa [2015] No. 51) (《國務院關於調整和完善固定資產投資項目資本金制度的通知》(國發[2015]51號)) promulgated and implemented on September 9, 2015, the capital fund system is applied in fixed asset investment projects.

Under the capital fund system, investors must contribute a certain proportion of capital as the project company's capital funds. The proportion of such contribution in wastewater treatment, water



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supply and municipal garbage disposal projects must be no less than 20% of the total project investment amount. The specific proportion will be determined by the approval authority of that project when reviewing the feasibility research report, taking into consideration the project's future economic benefits, banks' willingness to grant loans and appraisal opinions.

### LAND, PLANNING AND CONSTRUCTION PERMITS

#### Land use rights

According to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated by the NPC Standing Committee on June 25, 1986, implemented on January 1, 1987 and revised on December 29, 1988, August 29, 1998 and August 28, 2004, land owned by the State may be remised or allotted to construction units or individuals in accordance with the law. The people's government at or above the county level shall register and put on record uses of state-owned land used by construction units or individuals, and issue certificates to certify the land use rights.

According to the Regulations on the Implementation of the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》) promulgated by the State Council on December 27, 1998, implemented on January 1, 1999 and revised on January 8, 2011 and July 29, 2014 respectively, state-owned land with undetermined usage rights are to be registered in a registry set up by the local governments at or above the county level, which are responsible for the protection and administration of such land.

According to the Property Law of the PRC (《中華人民共和國物權法》) promulgated by the National People's Congress on March 16, 2007, implemented on October 1, 2007, with respect to the possession occurred on the basis of a contractual relationship, the use, proceeds and default liability of the relevant real property or movable property shall be governed by the stipulations in the contract; in case there is no such stipulation in the contract or the stipulations are unclear, the relevant legal provisions shall be applied. In case the buildings, structures and their affiliated facilities are transferred, exchanged, used as equity contributions or endowed, the right to use land for construction occupied by the aforesaid buildings, structures and their affiliated facilities shall be disposed of concurrently.

According to the Urban Real Estate Administration Law of the PRC (《中華人民共和國城市房地產管理法》) promulgated by the Standing Committee of NPC on July 5, 1994, implemented on January 1, 1995 and revised on August 30, 2007 and August 27, 2009, the allocation of the land for urban infrastructure and public utilities shall be approved by the people's governments at or above the county level in accordance with the law. When real estates are transferred or mortgaged, the ownership of houses and land use rights for the land occupied by the houses shall be transferred and mortgaged concurrently.

According to the Catalog of the Allotted Land (Order No. 9 of the Ministry of Land and Resources) (《劃撥用地目錄》(國土資源部令第9號)) promulgated and implemented by Ministry of Land

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and Resources on October 22, 2001, the land use rights of construction projects which are in conformity with the Catalog can only be allotted through application by the construction units and approval of the people's government with the approval authority.

According to the Measures for the Administration of Preliminary Examination of the Land Used for Construction Projects (Order No. 68 of the Ministry of Land and Resources) (《建設項目用地預審管理辦法》(國土資源部令第68號)) promulgated and implemented by Ministry of Land and Resources on July 25, 2001 and revised on November 1, 2004, November 29, 2008 and November 29, 2016 respectively and implemented on January 1, 2017, the land used for construction projects shall be subject to preliminary examination at different levels. The construction projects, which need to be examined and approved by the people's government or by the development and reform department and etc. of the people's government that has approval power, shall be preliminarily examined by the administrative department of land and resources of the people's government. The construction projects, which need to be ratified and archived, shall be preliminarily examined by the administrative department of land and resources at the same level with the ratification and archiving organ.

According to the Implementing Rules of the Provisional Regulations on Real Estate Registration (《不動產登記暫行條例實施細則》) promulgated by Ministry of Land and Resources on January 1, 2016, the buildings and structures including houses, the fixed objects including forest and woods shall be registered together with the lands and seas clung by them, with an aim to maintaining the consistence of subject of rights.

### **Construction Land Planning Permit**

According to the Urban and Rural Planning Law of the People's Republic of China (Order No. 23 of the President) (《中華人民共和國城鄉規劃法》(主席令第23號)) promulgated by the NPC Standing Committee on October 28, 2007, implemented on January 1, 2008 and revised on April 24, 2015, a Construction Land Planning Permit is required for the right to use the state-owned land acquired by assignment and appropriation.

If a construction entity which was authorized to use the construction land fails to obtain a Construction Land Use Planning Permit, the people's government at or above the county level shall cancel any relevant authorization document. If the land has already been occupied, it shall be returned promptly. Furthermore, the construction entity shall be obliged to compensate for any damage caused to any other relevant parties according to law.

### **Construction Work Planning Permit**

According to the Urban and Rural Planning Law of the People's Republic of China (《中華人民共和國城鄉規劃法》), to build any building, structure, fixture, road, pipeline or other engineering project within a city or town planning area, the relevant construction entity or individual shall apply for a Construction Work Planning Permit from a competent urban and rural planning administrative department of the people's government at the municipal or county level or to the people's government

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of town as recognized by the people's government of a province, autonomous region or municipality directly under the Central Government.

For construction work that proceeds without the Construction Work Planning Permit or in violation of the provisions of the Construction Work Planning Permit, a competent urban and rural planning administrative department at or above the county level can order termination; if the impact on the planning caused by such construction can be eliminated, the department shall order it to take remedial action within a prescribed time limit and pay a fine of not less than 5% but not exceeding 10% of the construction cost; if such impact cannot be eliminated by remedial action, the department shall order the construction entity to demolish its construction within a prescribed time limit. For construction work that cannot be demolished, the department shall not only confiscate it or seize any illegal income but also may impose a fine of not more than 10% of the construction cost.

### **Construction Work Commencement Permit**

According to the Construction Law of the People's Republic of China (Order No. 46 of the President) (《中華人民共和國建築法》(主席令第46號)) promulgated by the NPC Standing Committee on November 1, 1997, implemented on March 1, 1998 and revised on April 22, 2011 and implemented on July 1, 2011, a construction entity shall, prior to the commencement of a construction project, apply for a construction work commencement permit to a competent construction administrative department of the people's government at or above the county level of the place where the project is located pursuant to the relevant regulations of the State. However, small projects below the threshold value set by the competent construction administrative department of the State Council are subject to exception.

According to the Rules on the Administration of Construction Quality (Order No. 279 of the State Council) (《建設工程質量管理條例》(國務院令第279號)) promulgated and implemented by the State Council on January 30, 2000 and amended on October 7, 2017, a construction entity commencing the project without obtaining the construction work commencement permit or approvals for its construction commencement report, shall be ordered to stop the construction work, carry out remedial actions within a prescribed time limit and pay a fine of not less than 1% but not exceeding 2% of the contractual project price.

### **Inspection and Acceptance on Completion of Construction Projects**

According to the Rules on the Administration of Construction Quality (Order No. 279 of the State Council) (《建設工程質量管理條例》(國務院令第279號)) promulgated and implemented by the State Council on January 30, 2000 and amended on October 7, 2017 and the Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (Order No. 2 of the Ministry of Housing and Urban-Rural Development) (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》(住房和城鄉建設部令第2號)) promulgated and implemented by the former Ministry of Construction on April 4, 2000 and revised on October 19, 2009, a construction project shall not be delivered for use unless it has passed the acceptance checks. The construction entity should file a record to a competent construction administrative department of the people's

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government at or above the county level of the place where the project is located within 15 days from the day when the construction project passes the acceptance checks.

Where a construction entity illegally delivers the construction project for use without obtaining the acceptance checks or in circumstances where it failed to pass the acceptance checks or checks and accepts a substandard construction project as one which is up to standard, it shall be ordered to carry out remedial actions and also pay a fine of not less than 2% but not exceeding 4% of the contractual project price, and shall be obliged to pay compensation according to law if any losses have been caused. If the construction entity fails to file a record of passing the acceptance checks in respect of the project within 15 days from the day when the construction project passes such checks, it shall be ordered by the archiving organ to carry out remedial actions within a prescribed time limit and pay a fine of not less than RMB200,000 but not exceeding RMB500,000.

### BUSINESS QUALIFICATIONS AND LICENSES

#### Pollutant Discharge Permit

According to the Environmental Protection Law of the PRC (Order No. 9 of the President) (《中華人民共和國環境保護法》(主席令第9號)) revised by the NPC Standing Committee on April 24, 2014 and implemented on January 1, 2015, Law of the PRC on the Prevention and Control of Water Pollution (Order No. 87 of the President) (《中華人民共和國水污染防治法》(主席令第87號)) revised on February 28, 2008 and implemented on June 1, 2008 and revised on July 27, 2017 and implemented on January 1, 2018, an enterprise operating centralized treatment facilities of urban wastewater shall obtain a pollutant discharge permit. It is forbidden for enterprises and public institutions to discharge wastewater into the water body without a pollutant discharge permit or in violation of the provisions of the pollutant discharge permit. In accordance with the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation) (Order No. 48 of the Ministry of Environmental Protection) (《排污許可管理辦法(試行)》(環境保護部令第48號)) promulgated by Ministry of Environmental Protection on January 10, 2018, business entities and other operators under the classification administration list of pollution discharge licensing for fixed pollution sources (each, a “pollutant discharging entity”) shall apply for a pollutant discharge permit within the required time limit. Each pollutant discharging entity must hold a pollutant discharge permit in accordance with the law, and discharge pollutants in accordance with the requirements stipulated in the pollutant discharge permit.

#### Health Permit

The validity term of a health permit of a water supply unit is four years. The water supply unit shall reapply for the recertification 6 months prior to expiry of the validity term.

#### Water Intake Permit

According to the Water Law of the PRC (Order No. 48 of the President) (《中華人民共和國水法》(主席令第48號)) promulgated by the NPC Standing Committee on January 21, 1988, implemented

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on July 1, 1988 and revised on August 29, 2002, August 27, 2009 and July 2, 2016, Regulations on Administration of Water Intake Permit and Collection of Water Resources Charges (Order No. 676 of the State Council) (《取水許可和水資源費徵收管理條例》(國務院令第676號)) promulgated by the State Council on February 21, 2006, implemented on April 15, 2006 and revised on March 1, 2017, Measures on Administration of Water Intake Permit (Order No. 47 of the Ministry of Water Resources) (《取水許可管理辦法》(水利部令第47號)) promulgated and implemented by the Ministry of Water Resources on April 9, 2008 and revised on December 16, 2015 and December 22, 2017, except those who are not required to apply for a water intake permit under the legal requirements, units and individuals that obtain water resources from rivers, lakes and underground water by using water intake works or facilities and have water intake works or plants completed and operated for over 30 days, must apply for a water intake permit from the water administrative department or the drainage basin authority of a local people's government at or above the county level in accordance with the state's water intake permit system and paid use system of water resources, and obtain the water intake rights by paying a water resource fee. Water intake entities or individuals shall take in water according to the approved annual water intake plan. For water intake exceeding the plan or quota, water resource fees shall be charged progressively on the excessive part.

A water intake permit shall generally be valid for 5 years, but no more than 10 years. Upon the expiration of the valid term, water intake entities or individuals who seek for extension shall submit their applications to the former approval authorities within 45 days prior to the expiration.

### **Construction Enterprise Qualification**

According to the Measures of Regulation on Construction Enterprise Qualification (Order No. 22 of the MOHURD) (《建築業企業資質管理規定》(住房和城鄉建設部令第22號)) promulgated by the MOHURD on January 22, 2015 and implemented on March 1, 2015 and revised on September 30, 2016 and December 13, 2018, an enterprise shall obtain a qualification certificate for construction enterprises before conducting construction activities within the scope of the qualifications. The qualification certificate is valid for 5 years.

## **PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION**

### **Environmental Protection Law**

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated and implemented by the NPC Standing Committee on December 26, 1989, entities causing environmental pollution and other public hazards shall adopt effective measures to prevent and control the pollution and harm done to the environment. The design, construction and commission of facilities for prevention and control of pollution shall be conducted at the same time with that of the main body of the construction project. A construction project shall not be commissioned or used, until its facilities for the prevention and control of pollution are approved or examined and accepted by the competent department of environmental protection. The revised Environmental Protection Law of the PRC was promulgated on April 24, 2014, and was implemented on January 1, 2015.

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### **Environmental Impact Assessment Law**

According to the Environmental Impact Assessment Law of the PRC (Order No. 48 of the President) (《中華人民共和國環境影響評價法》(主席令第48號)) promulgated by the NPC Standing Committee on October 28, 2002, implemented on September 1, 2003 and revised on July 2, 2016 and December 29, 2018, and the Rule on Classification for Environmental Impact Assessment of Construction Projects (Order No. 5 of the Ministry of Environmental Protection) (《建設項目環境影響評價文件分級審批規定》(環境保護部令第5號)) promulgated by the Ministry of Environmental Protection of the PRC on January 16, 2009, and implemented on March 1, 2009, the PRC government has established a system to assess the environmental impact of construction projects and classify the assessment based on the degree of environmental impact caused by the construction project. In the event of significant environmental impact, an environmental impact assessment report shall include a comprehensive assessment on the possible environmental impact; in the event of slight environmental impact, an environmental impact report shall include a basic analysis or assessment on the environmental impact; and in the event of minimal environmental impact so that it is not necessary to conduct an environmental impact assessment, an environmental impact form shall be filled in. The environmental impact assessment documents should be approved by competent administrative department before start of construction. After the environmental impact assessment document of a construction project has been approved, if the nature, scale, location, the production techniques employed or the measures on preventing pollution and ecological damage of the construction project have undergone substantial changes, the construction company shall resubmit the environmental impact assessment document of the construction project for examination and approval. If the project was decided to start construction after five years from the date of approving the environmental impact assessment document of a construction project, its environmental impact assessment document shall be submitted to the original approval authorities for re-review.

### **Law on the Prevention and Control of Environmental Pollution by Solid Waste**

The Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) was promulgated by the NPC Standing Committee on October 30, 1995, implemented on April 1, 1996, and was later revised on December 29, 2004, June 29, 2013, April 24, 2015 and November 7, 2016. According to the newly revised Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), units and individuals that produce solid waste shall take measures to prevent or reduce the environmental pollution caused by solid waste. Units and individuals that collect, store, transport, utilize or dispose of solid waste shall take measures to prevent the scattering, running-off and leakage of solid waste, or other measures to prevent pollution of the environment; they shall not dump, pile up, discard or litter solid waste without authorization. No unit or individual may dump solid waste into or pile up solid waste on the rivers, lakes, canals, channels, reservoirs, or bottomlands and slopes below the highest waterline, or other places where dumping and piling up of solid waste is prohibited by laws and regulations.

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### **Law on the Prevention and Control of Water Pollution**

According to the Law of the PRC on the Prevention and Control of Water Pollution (Order No. 87 of the President) (《中華人民共和國水污染防治法》(主席令第87號)) revised by the NPC Standing Committee on February 28, 2008 and implemented on June 1, 2008 and amended on June 27, 2017 and implemented on January 1, 2018, an enterprise operating centralized treatment facilities of urban wastewater shall obtain a pollutant discharge permit.

### **Construction Project Environmental Protection**

According to the Rules on the Administration concerning Environmental Protection of Construction Project (《建設項目環境保護管理條例》) promulgated and implemented by the State Council on November 29, 1998, and revised on July 16, 2017 and implemented on October 1, 2017, and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (Order No. 13 of the State Environmental Protection Administration) (《建設項目竣工環境保護驗收管理辦法》(國家環境保護總局令第13號)) promulgated by the MEP on December 27, 2001, implemented on February 1, 2002, and subsequently revised on December 22, 2010, after the completion of the construction projects for which environment effect report and environment effect statement was prepared, a construction unit shall, according to the standards and procedures formulated by the competent administrative department for environment protection under the State Council, conduct inspection and acceptance of supplementary environment protection facilities, and prepare inspection and acceptance report. Regarding the construction projects for which environment effect report and environment effect statement was prepared, no supplementary facilities of such projects may be put into production or use until such facilities pass inspection and acceptance; no supplementary facilities that have not been or passed the inspection and acceptance may be put into production or use. After the construction projects specified in the previous article are put into production or use, the environmental impact post-assessment shall be conducted in accordance with the regulations imposed by the competent administrative department for environment protection under the State Council. According to the Interim Provisions concerning the Environmental Protection Acceptance Check on Completion of Construction Projects (《建設項目竣工環境保護驗收暫行辦法》) promulgated and implemented by MEP on November 20, 2017, if the construction of environmental protection facilities are not synchronized with the construction of the main construction, or pollutant discharge permits shall be necessary but has not been obtained, a construction unit shall not conduct debugging on environmental protection facilities of such construction project. No main body of the construction projects may be put into production or use until the supplementary environmental protection facilities of such projects have passed the inspection and acceptance; no facilities that have not been or passed the inspection and acceptance may be put into production or use.

### **Pollutant Discharge**

According to the Circular on Print and Distribution of the Implementation Scheme for the License System of Pollutant Discharge Control (Guo Ban Fa [2016] No. 81) (《關於印發控制污染物排放許可制實施方案的通知》(國辦發[2016]81號)) issued by the General Office of the State Council on

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November 10, 2016, the license system of pollutant discharge control (hereinafter as the license system of pollutant discharge) is specified as the fundamental environmental management system for legally standardizing pollutant discharge activities of enterprises and institutions, and environmental protection department shall implement the license system of pollutant discharge by issuing pollutant discharge permits to enterprises and institutions and carrying out supervision in accordance with the permits.

According to the Notice on Print and Distribution of the Interim Provisions on the Administration of Pollutant Discharge Permits (No. 186 [2016] of the Ministry of Environment Protection) (《關於印發〈排污授權管理暫行規定〉的通知》(環水體[2016]186號)) issued by the Ministry of Environmental Protection on December 23, 2016, the MEP shall implement the sewage licensing management on the discharge of industrial waste gas or toxic and harmful air pollutants stipulated by the state of enterprises, institutions and towns, as well as operating units that operates industrial sewage centralized treatment facilities. The Ministry of Environmental Protection shall formulate and publish a list of the classification and management of sewage permit according to the industry, and step by step to promote the management of sewage license in batches. The pollutant discharging unit shall, within the time limit specified in the directory, discharge sewage with certification, prohibiting discharge without certification or discharge not on the basis of the certification.

According to the Classification and Administration Lists of Pollutant Discharge Permits for Stationary Pollution Sources (Version 2017, Buling No. 45) (《固定污染源排污許可分類管理名錄(2017年版)》(部令第45號)) issued by the Ministry of Environmental Protection on July 28, 2017, the existing enterprises and public institutions and other producers and operators should apply for pollutant discharge permits within the execution period in accordance with the requirements under the List. According to the Classification and Administration Lists of Pollutant Discharge Permits for Stationary Pollution Sources (Version 2017), discharge permits for wastewater treatment and reclaimed water treatment (including centralized treatment plants for industrial wastewater, urban residential wastewater treatment plants with a daily treatment capacity of 0.1 million tons or more and for urban residential wastewater treatment plants with a daily treatment capacity of less than 0.1 million tons), environmental sanitary administration (including centralized treatment for residential waste in towns and villages), power generation (including residential waste-, hazardous waste-or sludge-based thermal power generation), centralized treatment for residential wastewater and centralized treatment for industrial wastewater (centralized treatment for residential wastewater and centralized treatment for industrial wastewater with a daily industrial wastewater treatment of 20 thousand tons or more) shall be applied for before 2019. In addition, in accordance with the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation) (Order No. 48 of the Ministry of Environmental Protection) (《排污許可管理辦法(試行)》(環境保護部令第48號)) promulgated by Ministry of Environmental Protection on January 10, 2018, a pollutant discharging entity that has already been established and discharged pollutants before the time limit as provided in the classification administration list of pollution discharge licensing for fixed pollution sources shall apply for a pollutant discharge permit within the time limit.

To further promote the municipal polluted rivers control work, on September 30, 2018, MOHURD and the Ministry of Ecology and Environment (MOEE) published the Implementation Plan



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of Municipal Polluted Rivers' Control (Jian Cheng [2018] No.104) (《城市黑臭水體治理攻堅戰實施方案》(建城[2018]104號)) (the “**Notice 104**”) to the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government (the “**Relevant Government Authorities**”). Pursuant to the Notice 104, the relevant government authorities need to expedite the implementation of the pollutant discharge permit scheme, the local governments of built-up areas of cities at prefecture level or above shall require pollutant discharge permits to be obtained for all wastewater treatment plants by the end of 2019, but the local governments of built-up areas of the 36 major cities in the PRC shall require pollutant discharge permits to be obtained for all wastewater treatment plants by the end of 2018.

### INTELLECTUAL PROPERTY

#### Trademark

According to the PRC Trademark Law (Order No. 6 of the President) (《中華人民共和國商標法》(主席令第6號)), which was promulgated by the NPC Standing Committee on August 23, 1982, implemented on March 1, 1983 and revised respectively on February 22, 1993, October 27, 2001 and August 30, 2013, and became effective on May 1, 2014, the exclusive right to use a registered trademark is limited to the trademark which has been approved for registration and to the goods in respect of which the use of the trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the date of approval of the registration. Using a trademark that is identical with a registered trademark in respect of the same goods, or using a trademark that is similar to a registered trademark in respect of the same goods, or using a trademark that is identical with or similar to a registered trademark in respect of the similar goods without the authorization from the trademark registrant, which is likely to cause confusion, shall be an infringement of the exclusive right to use a registered trademark.

#### Patent

According to the PRC Patent Law (Order No. 8 of the President) (《中華人民共和國專利法》(主席令第8號)), which was promulgated by the NPC Standing Committee on March 12, 1984, implemented on April 1, 1985 and revised respectively on September 4, 1992, August 25, 2000 and December 27, 2008, and became effective on October 1, 2009, after the patent right is granted for an invention or a utility model, unless otherwise provided for in this Law, no unit or individual may exploit the patent without permission of the patentee, i.e., it or he may not, for production or business purposes, manufacture, use, offer to sell, sell, or import the patented products, use the patented method, or use, offer to sell, sell or import the products that are developed directly through the use of the patented method. After the patent right is granted for a design, no unit or individual may exploit the patent without the permission of the patentee, i.e., it or he may not, for the production or business purposes, manufacture, offer to sell, sell or import any product containing the patented design. The period of validity of an invention patent shall be twenty years, while ten years for a utility model patent and a design patent, in each case commencing on their respective application dates.

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### LABOR PROTECTION

#### Labor Law

Pursuant to the PRC Labor Law (Order No. 18 of the President) (《中華人民共和國勞動法》(主席令第18號)), which was promulgated by the NPC Standing Committee on July 5, 1994 and implemented on January 1, 1995, and was revised on August 27, 2009 and December 12, 2018, a labor contract is the agreement reached between a labor and an entity for the establishment of the labor relationship and the definition of the rights, interests and obligations of each party. A labor contract shall be concluded where a labor relationship is to be established. An entity shall develop and improve its labor safety and health systems. Labor safety and health facilities must comply with national standards. The entity must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. The entity shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations, and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

#### Labor Contract Law and its Implementation Regulations

Pursuant to the PRC Labor Contract Law (Order No. 73 of the President) (《中華人民共和國勞動合同法》(主席令第73號)), which was promulgated by the NPC Standing Committee on June 29, 2007 and became effective on January 1, 2008, and was revised on December 28, 2012, and the Implementation Regulations on Labor Contract Law of the PRC (Order No. 535 of the State Council) (《中華人民共和國勞動合同法實施條例》(國務院令第535號)) which was promulgated and implemented by the State Council on September 18, 2008, a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

#### Laws and Regulations on the Supervision over the Social Security and Housing Funds

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (Order No. [259] of the State Council) (《社會保險費征繳暫行條例》(國務院令第[259]號)), which was promulgated and implemented by the State Council on January 22, 1999, the Regulations on Work Injury Insurance (Order No. 586 of the State Council) (《工傷保險條例》(國務院令第586號)), which was promulgated by the State Council on April 27, 2003, implemented on January 1, 2004 and revised on December 20, 2010, the Regulations on Unemployment Insurance (Order No. 258 of the State Council) (《失業保險條例》(國務院令第258號)), which was promulgated and implemented by the State Council on January 22, 1999, and the Trial Measures on Employee Maternity Insurance of Enterprises (Lao Bu Fa

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[1994] No.504) (《企業職工生育保險試行辦法》(勞部發[1994]504號)), which was promulgated by the former Ministry of Labor (now known as Ministry of Human Resources and Social Security, hereinafter referred to as this name) on December 14, 1994 and implemented on January 1, 1995, enterprises shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance of the PRC (Order No. 35 of the President) (《中華人民共和國社會保險法》(主席令第35號)), which was promulgated by the NPC Standing Committee on October 28, 2010 and implemented on July 1, 2011, and subsequently revised on December 29, 2018, regulates basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

The Regulations on the Administration of Housing Provident Fund (Order No. 350 of the State Council) (《住房公積金管理條例》(國務院令第350號)), which was promulgated and implemented by the State Council on April 3, 1999, and was revised on March 24, 2002, stipulate that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer all belong to the individual employee.

### FOREIGN EXCHANGE MANAGEMENT SYSTEM

According to the Regulation of the People's Republic of China on Foreign Exchange Administration (Order of the State Council No.532) (《中華人民共和國外匯管理條例》(國務院令第532號)) promulgated by the State Council on January 29, 1996 and revised on January 14, 1997 and August 5, 2008, the government imposes regulation on foreign exchange income and expenditure and foreign exchange business operations of domestic institutions and foreign exchange income and expenditure and foreign exchange business operations within the territory by overseas institutions.

According to the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors (Hui Fa [2013] No.21) (《外國投資者境內直接投資外匯管理規定》(匯發[2013]21號)) promulgated by the State Administration of Foreign Exchange on May 10, 2013, direct investment within the PRC territory shall be subject to registration management. Enterprises involved in domestic direct investment shall register with the State Administration of Foreign Exchange and its branch offices. Banks shall provide the relevant domestic direct investment service in accordance with the registration information filed with the foreign exchange authorities.

According to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (Hui Fa [2015] No. 13) (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》(匯發[2015]13號)) promulgated by the State Administration of Foreign Exchange on February 13, 2015, (a) the State Administration of Foreign Exchange cancels two administrative approval items: confirmation of foreign exchange registration under domestic direct investment and confirmation of foreign exchange registration under

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## REGULATORY OVERVIEW

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overseas direct investment; instead, banks shall directly examine and handle foreign exchange registration under direct investment pursuant to the Operating Guidelines for Foreign Exchange Business in Direct Investment (《直接投資外匯業務操作指引》) and the State Administration of Foreign Exchange and its branch offices shall indirectly regulate the foreign exchange registration under direct investment through banks; (b) cancels the registration for confirmation of the non-cash capital contribution of foreign investors under domestic direct investment and the registration for confirmation of the capital contribution made by foreign investors for acquisition of the equity interests of the Chinese side; instead, the capital contribution under domestic direct investment shall be entered into accounts; (c) cancels filing of foreign exchange under overseas reinvestment; (d) cancels annual inspection of foreign exchange under direct investment.

### TAXATION

#### Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (Order No. 64 of the President) (《中華人民共和國企業所得稅法》(主席令第64號)) (the “EIT Law”), which was promulgated by the NPC Standing Committee on March 16, 2007, implemented on January 1, 2008 and revised on February 24, 2017 and December 29, 2018, and the Implementation Rules To the Enterprise Income Tax Law (Order No. 512 of the State Council) (《中華人民共和國企業所得稅法實施條例》(國務院令第512號) (the “Implementation Rules”)), which was promulgated by the State Council on December 6, 2007 and came into effect from January 1, 2008, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25%. Furthermore, resident enterprises, which refer to enterprises that are set up in accordance with the PRC law, or that are set up in accordance with the law of the foreign country (region) but with its actual administration Institution in the PRC, shall pay enterprise income tax originating both within and outside the PRC. While non-resident enterprises that have set up institutions or premises in the PRC shall pay enterprise income tax, in relation to the income originating from the PRC and obtained by their institutions or establishments, and the income incurred outside the PRC but there is an actual relationship with the institutions or establishments set up by such enterprises. Where non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall pay enterprise income tax in relation to the income originating from the PRC.

According to the EIT Law and the Implementation Rules, the income incurred from environmental protection projects or energy and water saving projects which meet relevant requirements shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations, and thereafter be entitled to a 50% reduction from enterprise income tax for the next three years. The specific conditions and scope of projects shall be jointly formulated by the MOF, the SAT and relevant departments of the State Council, and shall be publicized and implemented after being approved by the State Council.

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## REGULATORY OVERVIEW

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### Business Tax

The Temporary Regulations on Business Tax of the PRC (Order No. 540 of the State Council) (《中華人民共和國營業稅暫行條例》(國務院令第540號) (the “Temporary Regulations on Business Tax”)), which was promulgated by the State Council on December 13, 1993, implemented on January 1, 1994 and amended on November 10, 2008 and came into effect on January 1, 2009, provides that entities and individuals shall pay business tax if they are engaged in the provision of services with respect to the industries of transport business, tourism, construction, entertainments and other service prescribed in Temporary Regulations on Business Tax, or transfer of intangible assets or sale of real estate within China’s territory. According to the Decision to Repeal the Interim Regulation of the People’s Republic of China on Business Tax and Amend the Interim Regulation of the People’s Republic of China on Value-Added Tax (《關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》) promulgated and implemented by the State Council on November 19, 2017, the State Council decided to repeal the Interim Regulation of the People’s Republic of China on Business Tax (《中華人民共和國營業稅暫行條例》) on November 19, 2017.

### Value-added Tax

The Temporary Regulations on Value-added Tax (Order No. 666 of the State Council) (《中華人民共和國增值稅暫行條例》(國務院令第666號)), which was promulgated by the State Council on December 13, 1993, implemented on January 1, 1994, and amended on November 10, 2008, implemented on January 1, 2009 and amended on February 6, 2016 and amended on November 19, 2017, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (Order No. 65 of the Ministry of Finance) (《中華人民共和國增值稅暫行條例實施細則》(財政部令第65號)), which was promulgated and implemented by MOF on December 25, 1993, and was amended on December 15, 2008 and October 28, 2011, set out that all taxpayers selling goods or providing processing, repairing or maintenance services in China, or importing goods to China shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or maintenance services. The applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

### Value Added Tax in Lieu of Business Tax

According to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (Cai Shui [2011] No. 110) (《營業稅改征增值稅試點方案》(財稅[2011]110號)), which was promulgated and implemented by the MOF and the SAT on November 16, 2011, the government launched gradual taxation reforms starting from January 1, 2012, whereby it collected value-added tax in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service industries.

According to Notice of the State Council on Effectively and Comprehensively Promoting the Pilot Program of Replacing Business Tax with Value-Added Tax (Guo Fa Ming Dian [2016] No. 1) (《國務院關於做好全面推開營改增試點工作的通知》(國發明電[2016]1號)) promulgated on April 29, 2016 and

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implemented on May 1, 2016, the pilot reform to replace business tax with value-added tax is carried out throughout the country on May 1, 2016.

### **Tax Benefits**

According to the Circular on Issuing the Catalog of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources (Cai Shui [2015] No.78) (《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》(財稅[2015]78號)) promulgated by the MOF and the SAT on June 12, 2015 and implemented on July 1, 2015, taxpayers who are engaged in the sale of products made by themselves through comprehensive utilization of resources and the provision of services involving the comprehensive utilization of resources may enjoy the VAT policy of immediate refund upon payment. The refund proportion for sewage treatment service, garbage disposal, and sludge treatment & disposal service is 70%; reclaimed water made through comprehensive utilization is 50%; and waste batteries and their dismantle for comprehensive utilization is 30%.

### **Fiscal Subsidy**

Pursuant to the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) passed by the State Council on September 18, 2013 and implemented from January 1, 2014, sewage treatment fees shall be included in the local fiscal budget, and shall be exclusively used for the construction and operation of urban sewage treatment facilities and the treatment and disposal of sludge, but not for any other purpose. The standard rate of sewage treatment fees shall not be lower than the normal operating cost of urban sewage treatment facilities. If, for special reasons, the sewage treatment fees collected were insufficient to pay for the normal operating cost of urban sewage treatment facilities, a subsidy would be granted by the local people's government. The charge and use of sewage treatment fees shall be open to the public.

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## HISTORY AND CORPORATE STRUCTURE

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### OUR HISTORY

#### Overview

Our origin can be traced back to 2003 when CEIL Group expanded its operations into the environmental water business. On March 25, 2003, CEWIL (formerly known as China Everbright Environmental Protection Investment Limited) was incorporated in the British Virgin Islands as an indirect wholly-owned subsidiary of CEIL to hold the environmental water business of the CEIL Group.

Since CEWIL's incorporation, the environmental water business of the CEIL Group has further expanded through operating and investing in different water treatment projects. In 2004, Qingdao EB-VW Waste Water Treatment Co. Ltd. (currently known as Everbright Water (Qingdao) Limited) was established, marking our first environmental water business. In 2005, our Company secured our first TOT project in Zibo City, Shandong Province. In 2006, our Company secured a water treatment project in Jinan City, marking our Company's first provincial capital city project. In 2008, our Company secured a water treatment project in Jiangyin, Jiangsu, marking our Company's first urban and rural plant network integration project.

In December 2014, our immediate holding company, CEWHL, injected their investments in CEWIL into HanKore Environment Tech Group Limited ("**HanKore**"), a company previously listed on the SGX-ST Main Board (stock code: U9E), in return for 1,940,269,305 consideration shares issued by HanKore. The transaction constituted a reverse takeover (the "**Reverse Takeover**") under Rule 1015 of the Listing Manual of the SGX-ST. Following completion of the Reverse Takeover, our environmental water business acquired a listing status on the SGX-ST Main Board and HanKore was renamed China Everbright Water Limited. Please refer to the paragraph headed "The Reverse Takeover" in this section for details of the Reverse Takeover.

We principally engage in water environment treatment, sponge city construction, river-basin ecological restoration, water supply, wastewater treatment, reusable water, wastewater source heat pump, sludge treatment and disposal, research and development of water technologies, and engineering and construction, etc. Our Company's geographical footprint spans across East, Central, South, North and Northeast China, including Beijing, Jiangsu, Shandong, Shaanxi, Henan, Hubei, Guangxi Zhuang Autonomous Region, Liaoning and Inner Mongolia Autonomous Region, etc.. As at December 31, 2018, our Company invested in and operated water treatment projects with a designed daily water treatment capacity of more than five million tonnes per day.

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### Key Milestones

The following table shows various key milestones in the history of our corporate and business development:

<u>Time</u>	<u>Milestone</u>
2003	CEWIL was incorporated.
2004	Qingdao EB-VW Waste Water Treatment Co. Ltd. (currently known as Everbright Water (Qingdao) Limited) was established, marking our first environmental water business.
2005	Our Company secured our first TOT project in Zibo City, Shandong Province.
2006	Our Company secured a water treatment project in Jinan City, marking our Company's first capital city project.
2008	Our Company secured a water treatment project in Jiangyin, Jiangsu, marking our Company's first urban and rural plant network integration project.
2014	Our environmental water business acquired a listing status on the SGX-ST Main Board following completion of the Reverse Takeover and HanKore was renamed China Everbright Water Limited.
2015	Our Company placed new ordinary Shares to International Finance Corporation and Dalvey Asset Holding Ltd., which is a wholly-owned subsidiary of RRJ Capital Asset Master Fund II, L.P., raising additional capital of SGD113,000,000 in aggregate.
	Our Company acquired a 90% equity interest in Dalian Dongda Water Co., Ltd. (currently known as Everbright Water (Dalian) Co., Ltd.)
2016	Our Company was included as a constituent stock of MSCI China Small Cap Index for the first time.
	Our Company secured Zhenjiang Sponge City PPP Project, marking our first sponge city project.
	Our Company secured Nanjing Municipal Water PPP Project in Jiangsu Province, marking our Company's first river training project.



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<u>Time</u>	<u>Milestone</u>
2017	<p>Our Company secured Ji'nan Zhangqiu Urban-Rural Integration Water Supply Project in Shandong Province, marking our Company's first water supply project.</p> <p>Our Company received approvals from the Shanghai Stock Exchange and the CSRC to issue the Panda Bonds. The First Tranche Panda Bonds was issued with a principal amount of RMB1 billion.</p> <p>Our Company secured Dezhou Lingcheng Waste Water Pipeline Network PPP Project in Shandong Province, marking our Company's first standalone pipeline network project.</p>
2018	<p>Our Company acquired the entire equity interest in Xuzhou Municipal Engineering Design Institute Co., Ltd.</p> <p>Our Company issued the Second Tranche Panda Bonds with a principal amount of RMB800 million.</p> <p>Our Company established a German joint venture, E+B Umwelttechnik GmbH, with RBH Reinhold Brenner Holding GmbH</p> <p>Our Company secured Xuzhou Yanqun Household Waste Landfill Leachate Treatment Project in Jiangsu Province, marking our Company's first leachate treatment project.</p>
2019	<p>Our Company issued the Third Tranche Panda Bonds with a principal amount of RMB700 million.</p> <p>Our Company completed the acquisition of the remaining 10% equity interest in Dalian Dongda Water Co., Ltd. (currently known as Everbright Water (Dalian) Co., Ltd.)</p>

### OUR CORPORATE DEVELOPMENT AND PRINCIPAL SUBSIDIARIES

#### CEWIL

Prior to the Reverse Takeover, the environmental water business of the CEIL Group was held by CEWIL, an indirect wholly-owned subsidiary of CEIL, which was incorporated in the British Virgin Islands on March 25, 2003.

Upon incorporation on March 25, 2003, CEWIL had an authorized share capital of US\$50,000 comprising 50,000 ordinary shares of US\$1.00 each, with one ordinary share being subscribed and credited as fully paid at par value of US\$1.00 each.

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On June 18, 2014, CEWIL capitalized its shareholder's loan of HK\$1,210,050,000 by issuing and allotting one new ordinary share to its then shareholder, China Everbright Environmental Protection Holdings Limited ("CEEPHL"). CEEPHL subsequently transferred the entire issued capital of CEWIL, comprising 2 issued and paid-up ordinary shares of par value US\$1.00 each, to CEWHL on June 26, 2014 in anticipation of the Reverse Takeover.

On December 12, 2014, following completion of the Reverse Takeover, HanKore, a company previously listed on the SGX-ST Main Board (stock code: U9E), acquired the entire issued share capital of CEWIL. Since then, our environmental water business has acquired a listing status on the SGX-ST Main Board. See "— The Reverse Takeover" for details of the Reverse Takeover.

### **Our Company / HanKore**

Our Company was incorporated in Bermuda with limited liability on August 22, 2003. Prior to the Reverse Takeover, our Company was known as HanKore Environment Tech Group Limited, the shares of which have been listed on the SGX-ST Main Board since February 16, 2004. HanKore group invests and operates in the water environment sector, with investments in various large scale municipal water/waste water treatment projects in the PRC. Since its establishment, HanKore group has become a large scale integrated water environment group involved in the financing, engineering and construction, operation, equipment and engineering contracting in municipal utilities.

In December 2014, HanKore acquired the entire issued share capital of CEWIL for a consideration of RMB5,811,267,353, which was satisfied by the allotment and issue of 1,940,269,305 consideration shares to CEWHL, representing approximately 78% of the enlarged share capital of HanKore. Following completion of the Reverse Takeover, our Company was renamed China Everbright Water Limited.

As of the completion date of the Reverse Takeover, our Company had an authorized share capital of HK\$2,487,261,275, comprising of 2,487,261,275 ordinary shares of HK\$1.00 each, with 2,487,261,275 Shares being issued and credited as fully paid at par value of HK\$1.00 each.

On April 21, 2015, our Company placed 49,696,276 new ordinary Shares to International Finance Corporation and 70,994,681 new ordinary Shares to Dalvey Asset Holding Ltd., both of which are institutional investors, at an issue price of SGD0.94 per Share pursuant to the subscription agreements dated January 19, 2015 for the purpose of raising additional working capital of our Group.

On June 21, 2016, the Company allotted and issued 10,177,139 new ordinary shares to ordinary shareholders who had elected to participate in the scrip dividend scheme. The total scrip dividend paid was SGD6,991,681.

On June 21, 2017, the Company allotted and issued 15,733,870 new ordinary shares to ordinary shareholders who had elected to participate in the scrip dividend scheme to settle the amount of dividend payable of SGD7,473,578.

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On June 21, 2018, the Company has allotted and issued 24,411,431 new ordinary shares to ordinary shareholders who had elected to participate in the scrip dividend scheme to settle the amount of dividend payable of SGD10,252,788.

On October 11, 2018, the Company has allotted and issued 26,008,884 new ordinary shares to ordinary shareholders who had elected to participate in the scrip dividend scheme to settle the amount of dividend payable of SGD10,065,437.

### **Our Principal Operating Subsidiaries**

Our business is primarily conducted by operating subsidiaries established by us at our project locations. For further details, see Note 1 of the Accountants' Report as set out in Appendix I to this Prospectus.

### **THE REVERSE TAKEOVER**

On December 30, 2013, CEWIL entered into a framework agreement with HanKore, a company previously listed on the SGX-ST Main Board (stock code: U9E), pursuant to which CEWIL and CEIL proposed to transfer all their investments in the environmental water sector into HanKore and in return HanKore agreed to allot and issue certain consideration shares to CEWIL, subject to, amongst other things, the execution of definitive agreements (the "**Framework Agreement**").

On June 2, 2014, CEWHL entered into a conditional sale and purchase agreement (the "**Acquisition Agreement**") with HanKore, pursuant to which HanKore had agreed to acquire, and CEWHL had agreed to sell, the entire issued and paid-up share capital of CEWIL for a consideration of RMB5,811,267,353, subject to the terms and conditions of the Acquisition Agreement. The consideration was agreed to be satisfied by the allotment and issue by HanKore to CEWHL of 1,940,269,305 consideration shares (the "**Consideration Shares**").

The consideration was arrived at on a willing-buyer-willing-seller basis after arm's length negotiations and was determined with reference to, among other things, (i) the respective and combined market positions of CEWIL and HanKore; (ii) the quality of the respective assets and business conditions of CEWIL and HanKore; (iii) the respective financial positions of CEWIL and HanKore; (iv) the future benefits and the synergies expected to be created as a result of the Reverse Takeover; (v) then prevailing industry and market conditions, and (vi) the valuations of CEWIL by two independent valuers appointed by CEIL and HanKore, respectively.

The acquisition constituted a reverse takeover and new listing of our business under Rule 1015 of the Listing Manual of the SGX-ST. On November 11, 2014, CEIL announced that it had on June 20, 2014 submitted a spin-off proposal to the Hong Kong Stock Exchange pursuant to Practice Note 15 of the Hong Kong Listing Rules and the Hong Kong Stock Exchange had confirmed on October 20, 2014 that CEIL may proceed with the spin-off of our business by way of listing on the SGX-ST. CEIL had

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## HISTORY AND CORPORATE STRUCTURE

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also applied for, and the Hong Kong Stock Exchange had granted to CEIL on October 17, 2014, a waiver from strict compliance with paragraph 3(f) of Practice Note 15 in respect of an assured entitlement to the Shares. On November 10, 2014, the SGX-ST granted in-principle approval for the listing and quotation of the consideration shares.

The Reverse Takeover was completed and settled on December 12, 2014. Pursuant to the completion, our Company has:

- acquired the entire issued and paid-up share capital of CEWIL;
- allotted and issued 1,940,269,305 Consideration Shares to CEWHL in satisfaction of the consideration for the Reverse Takeover. The Consideration Shares rank pari passu in all respects with the existing shares of HanKore and were listed and quoted on the SGX-ST Main Board on December 16, 2014; and
- our Company was renamed “China Everbright Water Limited”.

As advised by our legal advisor as to Singapore laws, the Reverse Takeover has been properly and legally completed and settled, and all applicable regulatory approvals have been obtained. Upon completion of the Reverse Takeover, CEWHL held approximately 78% of the enlarged issue share capital of our Company.

To the best of our knowledge and belief, we have complied with the Listing Manual in all material aspects since our listing on the SGX-ST.

### OUR ACQUISITIONS

#### *Acquisition of Dalian Dongda Water Co., Ltd. (currently known as Everbright Water (Dalian) Co., Ltd.)*

On August 28, 2015, our Company, through our wholly-owned subsidiary, BEWI, entered into an equity transfer agreement (“**Dongda Agreement**”) with Dongda Group Co., Ltd. (“**Dongda Group**”) and Liu Yubao, both independent third parties, to acquire the entire equity interest (“**Equity Interest**”) in Everbright Water (Dalian) Co., Ltd. (formerly known as Dalian Dongda Water Co., Ltd.) (“**Dalian Dongda**”) at an aggregate consideration of RMB799,989,000 (subject to BEWI’s obligation to make the Dalian Contingent Payment (defined below)), and to provide loans to Dalian Dongda amounting to RMB1,043,989,000 in aggregate. The consideration was arrived at on a willing-buyer-willing-seller basis and determined with reference to, among other things, (i) the market, financial and business position of Dalian Dongda, (ii) the future benefits and synergies expected to be created as a result of the acquisition, (iii) the prevailing industry and market conditions in the PRC and (iv) the value of the Equity Interest based on independent valuation at the time of the acquisition. The acquisition was a further expansion of the environmental water business of our Group and widened the geographical footprint of our Group in the PRC to cover Liaoning Province and Inner Mongolia Autonomous Region.

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Pursuant to the Dongda Agreement, the acquisition will be completed in three tranches. The first two tranches, which amount to 90% of the Equity Interest (“**Initial Interest**”), were completed and settled on November 4, 2015. Upon completion of the sale of the Initial Interest, BEWI is entitled to enjoy all the economic rights accruing to a shareholder in respect of the entire Equity Interest (excluding certain unpaid receivables of Dalian Dongda and its subsidiaries as set out below).

Pursuant to the Dongda Agreement, the remaining 10% of the Equity Interest (the “**Remainder Interest**”) will be transferred to BEWI in up to three phases over a three-year period starting from November 4, 2015 (the “**Three-Year Period**”). A contingent payment of up to RMB203,150,000 may be payable by BEWI to Dongda Group in connection with the Remainder Interest (“**Dalian Contingent Payment**”). The Dalian Contingent Payment payable (if any) will be an amount equivalent to the actual amount recoverable and received from relevant PRC governmental authorities during the Three-Year Period in respect of the total outstanding receivables of RMB\$203,150,000 owing by the PRC governmental authorities to Dalian Dongda and its subsidiaries under certain concession agreements as at December 31, 2014. For the avoidance of doubt, the entire Remainder Interest will be transferred by Dongda Group to BEWI by the end of the Three-Year Period, irrespective of whether and how much Dalian Dongda and its subsidiaries are able to recover from the total amount of unpaid receivables. The acquisition of the Remainder Interest was completed and settled in January 2019.

### *Acquisition of Xuzhou Municipal Engineering Design Institute Co., Ltd.*

On June 13, 2018, our Company, through its wholly-owned subsidiary, BEWI, entered into an equity stake purchase agreement with Mr. Wang Yong, Mr. Wen Zhigang, Mr. Wang Liming and Mr. Zhao Linwen (collectively, the “**Vendors**”), to acquire the entire equity interest in Xuzhou Municipal Engineering Design Institute Co., Ltd. (“**Xuzhou Design Institute**”) at an aggregate consideration of RMB82,000,000, payable in cash, subject to BEWI’s obligation to make the Xuzhou Contingent Payment (defined below) (the “**Xuzhou Acquisition**”).

Following completion of the Xuzhou Acquisition in June 2018, Xuzhou Design Institute has become an indirect wholly-owned subsidiary of our Company and its financial results have been consolidated into our Group’s consolidated financial statements.

Xuzhou Design Institute is a company incorporated under the laws of the PRC, and principally engages in the survey, mapping, design and consultation of projects relating to roads, bridges, tunnels, water supply, drainage, heat, gas, electricity, construction, landscape, sanitation, highways and water conservancy, as well as the consultation of project costs, review of construction drawings, bidding agency and project management. Based on the audited financial statements of Xuzhou Design Institute prepared under the PRC Generally Accepted Accounting Principles (the “**PRC GAAP**”) for the two years ended December 31, 2016 and December 31, 2017, on a non-consolidated basis, Xuzhou Design Institute recorded profits before tax of RMB5,175,000 and RMB9,209,000 respectively, and net profits after tax of RMB3,856,000 and RMB6,872,000 respectively. The audited net assets value of Xuzhou Design Institute as at March 31, 2018 is approximately RMB22,353,000 based on PRC GAAP.

The Vendors are individual investors who together owned the entire equity interests in Xuzhou Design Institute prior to the Xuzhou Acquisition.

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## HISTORY AND CORPORATE STRUCTURE

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To be best of our Directors' knowledge, information and belief, and having made all reasonable enquiries, each of the Vendors and Xuzhou Design Institute are independent of our Company and its connected persons.

### *Principal terms of the Xuzhou Acquisition*

#### **Consideration**

Subject to the terms and conditions of the equity stake purchase agreement, the consideration of the Xuzhou Acquisition is RMB82,000,000, subject to BEWI's obligation to make the Xuzhou Contingent Payment (defined below).

The consideration was arrived at after arm's length negotiations between the Vendors and BEWI and was determined with reference to (a) the assets and operating conditions of Xuzhou Design Institute, (b) the warranties and guarantees given by the Vendors, in particular, the performance guarantee and (c) the fair market value of the equity interest of Xuzhou Design Institute as at 31 March 2018, being RMB82,001,000, based on the independent valuation (the "**Valuation**") conducted by an independent valuer.

#### **Payment**

The consideration of RMB82,000,000 will be funded through a combination of cash resources and external borrowings and shall be paid by the Company in cash in the following manner:

- within ten working days after the date of the equity stake purchase agreement, BEWI shall pay an amount of RMB32,800,000 as first payment, being 40% of the consideration;
- within ten working days after registration of the equity transfer, BEWI shall pay an amount of RMB41,000,000 as second payment, being 50% of the consideration, on the basis that Xuzhou Design Institute does not undergo any material adverse change on or prior to the date of such payment; and
- the remaining balance of the consideration shall be paid six months after the registration of the equity transfer and within 10 working days from the completion of certain actions by Xuzhou Design Institute, including but not limited to the closure and deregistration of certain branches of Xuzhou Design Institute.

#### **Uncertain Receivables and Contingent Payment**

Pursuant to the equity stake purchase agreement, a contingent payment of up to RMB200,000,000 ("**Xuzhou Contingent Payment**") may be payable by BEWI to the Vendors in connection with some receivables amounting to approximately RMB200,000,000 due and payable to

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## HISTORY AND CORPORATE STRUCTURE

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Xuzhou Design Institute as at March 31, 2018 (“**Uncertain Receivables**”). The amount of the Xuzhou Contingent Payment (if any) will be an amount equivalent to the amount of the Uncertain Receivables recovered by Xuzhou Design Institute (after deducting any recovery costs tax expenses and commission expenses incurred) during a period of five years from completion (the “**Uncertain Receivables Recovery Period**”).

The Xuzhou Contingent Payment is payable by BEWI to the Vendors on a biannual basis, in March and October of each year during the Uncertain Receivables Recovery Period based on the actual amount recovered at such time. Pursuant to the equity stake purchase agreement, (i) it is the responsibility of the Vendors to recover the Uncertain Receivables, (ii) any recovery costs, tax expenses and/or commission expenses incurred by Xuzhou Design Institute shall be deducted from the amount of Xuzhou Contingent Payment payable to the Vendors and (iii) the Uncertain Receivables will not be included in our Company’s consolidated financial statements following completion. Based on the above, the Uncertain Receivables (a) have not been recognized as assets of Xuzhou Design Institute in its audited financial statements, (b) have not been taken into account in the valuation and (c) have not been factored into the determination of the consideration.

### **Receivables Recovery Guarantee and Performance Guarantee**

Pursuant to the equity stake purchase agreement, the Vendors have given the following guarantees to BEWI:

- i. Xuzhou Design Institute shall recover on or prior to February 28, 2021, all the receivables recognized in its audited consolidated financial statements as at March 31, 2018 (being approximately RMB17,612,000 in amount) (the “**Guaranteed Receivables**”), provided that it shall recover an amount equivalent to 80 per cent. of such receivables within two years from the date of the equity stake purchase agreement (the recovery guarantee of all the Guaranteed Receivables, the “**Receivables Recovery Guarantee**”); and
- ii. Xuzhou Design Institute shall enter into business contracts of an aggregate value of not less than RMB55,000,000 for each calendar year during the period from 2018 to 2020, such that the aggregate value of all business contracts entered into by it during such period shall be not less than RMB165,000,000 (the “**Performance Guarantee**”).

In respect of the Receivables Recovery Guarantee, to the extent that Xuzhou Design Institute is unable to recover any part of the Guaranteed Receivables pursuant to such Receivables Recovery Guarantee:

- (i) the deficit amount shall be set off against any Xuzhou Contingent Payment which has not yet been paid by BEWI to the Vendors; and
- (ii) in the event that there is no amount payable to the Vendors against which such deficit amount can be set off, BEWI is entitled to require the Vendors to return to BEWI an amount equivalent to such deficit amount in cash.

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## HISTORY AND CORPORATE STRUCTURE

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In respect of the Performance Guarantee, to the extent that Xuzhou Design Institute is unable to enter into business contracts of the requisite aggregate value for (i) any of the calendar year 2018, 2019 or 2020 and/or (ii) the entire period from 2018 to 2020, the Vendors shall compensate BEWI certain specified amounts calculated based on the relevant formula specified in the Agreement, depending on the amount of deficit.

### **Completion**

The Vendors and Xuzhou Design Institute shall apply for registration of the equity transfer within three days upon all conditions precedent being satisfied or waived in writing by BEWI. In June 2018, the Xuzhou Acquisition was completed and the transfer of the equity interest from the Vendors to BEWI was registered.

### *Reasons for and benefits of the Xuzhou Acquisition*

Xuzhou Design Institute has a number of important qualifications, including but not limited to multiple grade-A qualifications for the municipal sector, grade-A qualification for the construction sector and grade-A qualification for engineering consultation. Our Directors believe that the Xuzhou Acquisition will complement our Company's capabilities in the field of municipal engineering design, enhance the efficiency of our Company's engineering design works and reduce the relevant costs, and enable our Company to undertake design projects relating to environmental water services to create a new source of profit growth. Our Directors are of the view that the equity stake purchase agreement is on normal commercial terms, is fair and reasonable and is in the interests of our Company and its Shareholders as a whole.

As advised by our PRC legal advisor, each of the aforementioned acquisitions has been properly and legally completed and settled, and all applicable regulatory approvals have been obtained.

### **REORGANIZATION**

Since our Company is a public company listed on the SGX-ST, no reorganization has been undertaken for the purpose of the Listing.





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## HISTORY AND CORPORATE STRUCTURE

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*Notes:*

1. Dalian Lvshun City Waste Water Treatment Co., Ltd, Panjin City Waste Water Treatment Co., Ltd, Anshan City Water Operating Co., Ltd, Dalian EW Chunliuhe Water Co., Ltd, Dalian EW Malanhe Water Co., Ltd, Dalian Pulandian Area EW Water Co., Ltd, Dalian Zhuanghe EW Water Co., Ltd, Dandong Dongda Waste Water Treatment Co., Ltd, Dalian Lvshun Sanjianpu Waste Water Treatment Co., Ltd, Shenyang Hunnan EW Water Co., Ltd, Dalian Siergou Water Co., Ltd, Tongliao City Northern Waste Water Treatment Co., Ltd, Dalian Pulandian Area Tiexi EW Waste Water Treatment Co., Ltd and Dalian Bonded Area EW Water Co., Ltd
2. RBH Reinhold Brenner Holding GmbH holds the remaining 20% equity interest in E+B Umwelttechnik GmbH and is an independent third party.
3. Nanjing Zhuohong Environmental Protection Technology Co., Ltd (南京卓泓環保科技有限公司) holds the remaining 40% equity interest in Everbright Industrial Waste Water Treatment Nanjing Limited and is an independent third party.
4. Nanning Jianning Water Investment Group Co., Ltd (南寧建寧水務投資集團有限責任公司), China Construction Fifth Engineering Division Corp. Ltd (中國建築第五工程局有限公司) and North China Municipal Engineering Design and Research Institute Co., Ltd (中國市政工程華北設計研究總院有限公司) hold the remaining 19.3742%, 0.9687% and 0.0097% equity interest in Everbright Water (Nanning) Limited respectively, and are independent third parties.
5. Zhenjiang Waterworks Corporation (鎮江市水業總公司) holds the remaining 30% equity interest in Everbright Sponge City Development (Zhenjiang) Limited and is an independent third party.
6. Suizhou High-Tech Industry Investment Co., Ltd\* (隨州高新技術產業投資有限公司), Hubei Shuizong Water Resources & Hydropower Construction Co., Ltd (湖北水總水利水電建設股份有限公司) and Beijing Orient Landscape & Environment Co., Ltd (北京東方園林環境股份有限公司) hold the remaining 20%, 0.8% and 0.8% equity interest in Everbright Water Suizhou Water Environment Management Limited respectively, and are independent third parties.
7. Qingdao Water Group Co., Ltd (青島水務集團有限公司) holds the remaining 40% equity interest in Everbright Water (Qingdao) Limited and is an independent third party.
8. Jiangsu Jiangnan Water Co., Ltd (江蘇江南水務股份有限公司) holds the remaining 30% equity interest in Everbright Water (Jiangyin) Limited and is an independent third party.
9. Zhangqiu Waste Water Treatment Plant (章丘市污水處理廠) and Zhangqiu No.2 Waste Water Treatment Plant (章丘市第二污水處理廠) hold the remaining 2.65% and 2.35% equity interest in Everbright Water (Zhangqiu) Operating Limited respectively and are independent third parties.
10. Xinyi City Investment & Development Co., Ltd (新沂市城市投資發展有限公司) holds the remaining 39.6% equity interest in Everbright Water Operating (Xinyi) Limited and is an independent third party.
11. Laiyang Rui Bao Te Engineering Construction Co., Ltd. (萊陽瑞寶特建設工程有限公司) holds the remaining 10% equity interest in Everbright Water (Laiyang) Limited and is an independent third party.
12. Zhangqiu State-owned Asset Management Co., Ltd (章丘國有資產運營有限公司) holds the remaining 20% equity interest in Ji'nan Everbright Water Supply Limited and is an independent third party.
13. Mr. Lim Yu Neng Paul is an independent non-executive Director of our Company.
14. Ms. Cheng Fong Yee is an independent non-executive Director of our Company.



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## HISTORY AND CORPORATE STRUCTURE

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*Notes:*

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13. Mr. Lim Yu Neng Paul is an independent non-executive Director of our Company.
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## HISTORY AND CORPORATE STRUCTURE

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### REASONS FOR SEEKING THE LISTING ON THE HONG KONG STOCK EXCHANGE

We are currently seeking to have our Shares listed on the Main Board of the Hong Kong Stock Exchange in order to have dual primary listing status in both Singapore and Hong Kong. Our Directors consider that while it is important to maintain the Singapore listing status, it would also be beneficial for our Company and in the interest of our Shareholders as a whole to have our Shares listed in Hong Kong for the following reasons:

- (i) the stock markets in Hong Kong and Singapore attract different investors. The dual listing in Hong Kong and Singapore will likely provide our Company with ready access to two different equity markets;
- (ii) the Hong Kong Stock Exchange, as a leading player of the international financial market, could offer us direct access to the international capital market, enhance our fund-raising capabilities and broaden our shareholders base. The Shanghai and Shenzhen Stock Connect program between Mainland China and Hong Kong also allows mainland investors, who are more familiar with our business and operations, to invest in us through such program upon qualification. Accordingly, the Listing would provide us a viable source of capital to support our business growth; and
- (iii) a listing status on the Hong Kong Stock Exchange will further enhance our business profile in Hong Kong and the PRC and thus, strengthen our ability to attract new customers, business partners and strategic investors as well as to recruit, motivate and retain key management personnel for our Group's business.

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### OVERVIEW

We are a leading integrated water environmental solutions provider in the PRC in terms of market share in 2017, providing a comprehensive range of environmental water services. Our business spans wastewater treatment, water environment treatment, integrated utilization of water resources and water ecological protection. According to Frost & Sullivan, we are the largest Central State-Owned Enterprise operating in the wastewater treatment industry in the PRC, as well as the third largest wastewater treatment service provider in the Bohai Economic Rim in terms of treatment capacity in 2017. We are also one of the top ten integrated water resources solutions providers in the PRC in terms of 2017 market share, and one of only three companies in the PRC that is ranked top ten in both municipal wastewater treatment market and water environment management market in terms of market share. As a major market player in the wastewater treatment industry in the PRC, we are very well positioned to benefit from the strong support for our industry and the favorable policies implemented by the PRC government authorities. We are listed on the Mainboard of SGX-ST and recognized by international stock market index providers, being a constituent of both the MSCI (China Small Cap Index).

As at the Latest Practicable Date, we had a scalable project portfolio of an aggregate of 94 wastewater treatment projects, six water environment treatment projects and 11 other projects in operation, under construction and held for future development. We have built a nationwide network of projects across China, encompassing East, Central, South, North and Northeast China, including Beijing, Jiangsu, Shandong, Shaanxi, Henan, Hubei, Liaoning and Guangxi Zhuang and Inner Mongolia Autonomous Regions. During the Track Record Period, we focused our operations in major cities in these provinces, in particular within the Bohai Economic Rim and the Yangtze River Delta Region, which generally have higher population density, more extensive economic development, higher per capita income and therefore present attractive opportunities and significant demand for better management of water resources.

We operate the following three business lines:

- *Wastewater treatment:* We focus on the treatment of municipal wastewater and industrial wastewater. As at the Latest Practicable Date, we had 79 wastewater treatment projects in operation under our service concession arrangements, with a total designed capacity of 3,875,000 tonnes/day. Our wastewater treatment projects comprise municipal wastewater treatment projects and industrial wastewater treatment projects. In our municipal wastewater projects, we engage in the design, construction and/or operation of wastewater treatment plants under service concession arrangements with local governments. Our municipal wastewater treatment plants treat and discharge municipal wastewater in compliance with the “Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant” (GB18918-2002) as well as other relevant requirements stated in the environmental impact assessment reports approved by the relevant government authorities in the PRC. We charge our customers, who are primarily local governments in the PRC, wastewater treatment fees, mainly based on the volume of

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discharged wastewater and the agreed tariff during the relevant concession period, in accordance with the terms of the relevant service concession arrangements. For most of our municipal wastewater treatment projects, the service concession agreements set out a guaranteed minimum volume of wastewater to be treated and a guaranteed minimum unit price. In our industrial wastewater treatment projects, we generally provide industrial wastewater treatment services to industrial parks. We also undertake sludge treatment and disposal projects, which treat sludge, a by-product of the wastewater treatment process. During the Track Record Period, we mainly developed and, operated our wastewater treatment projects through the BOT and TOT project models. Details of our wastewater treatment projects, including the location and status of each project as well as details of each service concession arrangement, are set out in “Business — Our Projects under Service Concession Arrangements”. According to Frost & Sullivan, in 2017 we ranked fifth in China’s municipal wastewater treatment market, in terms of treatment capacity.

- *Water environment treatment:* We engage in the design, construction and operation of our water environment treatment projects, which involve black-odor river treatment, watershed management, sponge city construction and a series of ecological restoration works, under service concession arrangements with the local governments in the PRC. As at the Latest Practicable Date, we had two water environment treatment projects under construction. Under these projects, we provide a number of different services such as wastewater treatment projects, rainwater pump stations, drainage networks and rainwater storage facilities, and we perform various types of operation and maintenance works such as source pollution control of waste vents along the river, river dredging, river widening, river training, river water ecology remediation, river water quality improvement, riverbank greening and riverside environmental management. We charge our customers, who are primarily local governments in the PRC, service fees based on a combination of factors, including the extent to which the facility meets the relevant contractual requirements and its expected return. During the Track Record Period, we had developed and constructed our water environment treatment projects through the BOT project model. Details of our water environment treatment projects, including the location and status of each project as well as details of the service concession arrangements, are set out in “Business — Our Projects under Service Concession Arrangements”.
- *Others:* We also engage in the design, construction, operation and maintenance, where applicable, of (i) water supply projects, which include replenishment of reservoirs, water plant construction and water supply, urban-rural water supply, reservoir construction and water supply pipeline network construction, (ii) reusable water projects, which utilize the water processed by our wastewater treatment plants for water resources recycling for power plants or produce ultra-pure water from power plants for industrial recycling and (iii) wastewater source heat pump projects, which extract low-grade thermal energy from the water discharged by our wastewater treatment plants to power heating and air-conditioning in winter and summer for buildings for energy conservation and

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environmental protection. We undertake these projects under service concession arrangements with the local governments in the PRC. As at the Latest Practicable Date, we had six other projects, comprising four reusable water projects and two wastewater heat source pump projects, respectively, in operation, with a total designed capacity of 81,600 tonnes/day. During the Track Record Period, we developed and operated these projects through the BOT, BOO and self-operation project models. In addition, we also provide EPC construction consultation work and other services.

Our revenue and net profit increased from HK\$2,494.0 million and HK\$372.6 million, respectively, for 2016 to HK\$4,768.3 million and HK\$736.8 million, respectively, for 2018, representing a CAGR of 38.3% and 40.6%, respectively. According to Frost & Sullivan, from 2015 to 2017, the growth rates of our revenue and net profit are one of the highest among all of those companies which are listed on the Hong Kong Stock Exchange with a similar business scope of providing water management solutions. For the years ended December 31, 2016, 2017 and 2018, our wastewater treatment line of business accounted for 97.6%, 64.9% and 74.7%, respectively, of our revenue and 96.5%, 78.3% and 75.9%, respectively, of our gross profit.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths distinguish us from our competitors:

*We are a leading integrated water environmental solutions provider in the PRC, benefitting from the PRC government's favorable policies and the rapid development of the water industry*

We are a leading integrated water environmental solutions provider in the PRC, providing a comprehensive range of environmental water services. Our business spans wastewater treatment, water environment treatment, integrated utilization of water resources and water ecological protection. According to Frost & Sullivan, we are the largest Central State-Owned Enterprise operating in the wastewater treatment industry in the PRC, as well as the third largest wastewater treatment service provider in the Bohai Economic Rim in terms of treatment capacity in 2017. We are also one of the top 10 integrated water resources solutions providers in the PRC in terms of 2017 market share, and one of only three companies in the PRC that is ranked top ten in both the municipal wastewater treatment market and the water environment management market in terms of market share.

We have built a nationwide network of projects across China, encompassing East, Central, South, North and Northeast China, including Beijing, Jiangsu, Shandong, Shaanxi, Henan, Hubei, Liaoning and Guangxi Zhuang and Inner Mongolia Autonomous Regions. During the Track Record Period, we focused our operations in major cities in these provinces, in particular within the Bohai Economic Rim and the Yangtze River Delta Region, which generally have higher population density, more extensive economic development and, higher per capita income. As at the Latest Practicable Date, we had a total of 86 projects in operation, 13 projects under construction and 12 projects held for future development. Our Ji'nan Wastewater Treatment Project was selected as one of the 12 successful PPP case studies worldwide at the "2016 International United Nations Economic Commission for



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Europe PPP Forum”, becoming the only shortlisted project from China among the 12 case studies; and our Zhenjiang Sponge City Construction Pilot Project is one of the first batch of sponge city projects in the PRC, as well as a demonstration PPP project authorized by both the NDRC and the MOF, demonstrating the quality and profile of our projects. We are listed on the SGX-ST Mainboard, and are recognized by international stock market index providers, being a constituent of both the MSCI (China Small Cap Index) and the FTSE ST Mid Cap Index.

The PRC government has promulgated a number of favorable laws and policies to promote the growth of the PRC wastewater treatment industry in recent years. The new laws and policies have created more business opportunities for companies operating in the water industry. For example, the Water Pollution Prevention and Control Plan for Major River Basins (2016-2020) (《重點流域水污染防治規劃 (2016-2020) 》) clarifies the major direction of water environment development and defines the responsibilities of authorities at all levels for the water sector, and the newly amended Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), which came into force on January 1, 2018, provides a strong foundation to standardize and regulate the water sector in the PRC. The 13th Five-Year Wastewater Treatment Plan (the “**Treatment Plan**”) stipulates that the treatment rates of municipal wastewater in cities and towns are to reach 95% and 85%, respectively, by 2020, and the capacity of upgraded and renovated municipal wastewater treatment facilities will reach 42.20 million tonnes per day, among which, facilities in cities and counties will have aggregate capacities of 36.39 million tonnes per day and 5.81 million tonnes per day, respectively, in the 13th Five-Year-Period. During the 13th Five-Year-Period, it is expected that the investment into the construction of wastewater and reusable water projects will be over RMB550 billion, according to Frost & Sullivan. Moreover, a circular issued by the NDRC, the MOF and the MOHURD in January 2015 on Relevant Issues Concerning the Formulation and Adjustment of the Charging Standard for Sewage Treatment (《關於制定和調整污水處理收費標準等有關問題的通知》) requires the implementation of tariff pricing standards that provide reasonable profits for wastewater treatment providers and protect the legitimate interests of such operators. Furthermore, according to the Implementation Directives on Cooperation between Government and Social Capital for Water Pollution Prevention and Treatment (《關於推進水污染防治領域政府和社會資本合作的實施意見》) published on April 9, 2015, Private Public Partnerships are to be highly promoted in the wastewater treatment industry. As a major market player in the wastewater treatment industry in the PRC, we are well positioned to benefit from the support for our industry and the favorable policies implemented by the PRC government authorities.

*We have extensive experience in providing diversified types of water environment solutions and we are well positioned to take advantage of opportunities which arise in our markets to pioneer new service offerings*

We believe our strong government relationships, impressive track record, significant project pipeline and experience in successfully completing and integrating acquisitions mean we have strong growth potential.

We offer comprehensive and integrated water environment management solutions to our customers, including municipal and industrial wastewater treatment, sludge treatment and disposal

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water environment treatment, sponge city construction, reusable water, wastewater heat source pump, leachate treatment research and development of water environment technologies and engineering construction. As at the Latest Practicable Date, we had a total of 94 wastewater treatment projects, six water environment treatment projects and 11 other projects, respectively, in 27 cities in nine municipalities, provinces and autonomous regions in the PRC.

We are able to create opportunities based on the diversified types of services that we offer, and we are capable of managing different types of projects effectively because the requirements for management and research resources are similar across our service offerings, and the technologies are complementary to each other. We are therefore able to cross-sell our services to our customers who require more than one type of service from us. Most of our cross-selling efforts arise from cities where we operate municipal wastewater treatment projects, and the additional projects we obtain through cross-selling are the types which are more profitable due to their higher entry barriers. Examples of our projects obtained through our cross-selling efforts include, but are not limited to, our reusable water and wastewater heat source pump projects in Zibo, where we already operated a municipal wastewater treatment project; our industrial wastewater treatment projects and black-odor river treatment watershed management project in Nanjing, where we operated municipal wastewater treatment projects; and our reusable water project in Jiangyin, where we already operated a municipal wastewater treatment project. The different types of services that we offer can also bring multi-channel, stable and sustainable cash flows, allowing us to obtain the necessary financing for, and accelerating the development and construction of, our projects.

We are also able to leverage our experience in operating our projects in a city in China to increase our chance of winning a project in another city in China by adopting the same business model. For example, we adopted the model used in Zibo, Shandong and successfully won a project in Jinan, Shandong and a project in Jiangyin, Jiangsu, etc. by demonstrating to the local governments in Jinan and Jiangyin our capabilities and experience in operating the municipal wastewater treatment project in Zibo.

***We have strong potential for organic growth as well as expansion through acquisitions as supported by a proven track record and a strong project pipeline***

Our revenue and net profit increased from HK\$2,494.0 million and HK\$372.6 million, respectively, for 2016 to HK\$4,768.3 million and HK\$736.8 million, respectively, for 2018, representing a CAGR of 38.3% and 40.6%, respectively. According to Frost & Sullivan, from 2015 to 2017, the growth rates of our revenue and net profit are one of the highest among all of those companies which are listed on the Hong Kong Stock Exchange with a similar business scope of providing water management solutions. Also, our total assets increased from HK\$14,081.2 million as at December 31, 2016 to HK\$19,584.4 million as at December 31, 2018. We achieve our growth through three major ways: (i) obtaining new projects from local governments; (ii) project enhancement and expansion and (iii) acquisitions. As at December 31, 2016, 2017 and 2018, we had a total of 70, 75 and 85 projects in operation, respectively. Our total investment amount in our projects increased from RMB11.0 billion as at December 31, 2016 to RMB18.7 billion as at December 31, 2018. In addition to growing our total number of projects, we have also

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expanded our geographical coverage. We started our wastewater treatment business in Shandong Province in 2003, and have since then expanded to cover 27 cities in nine municipalities, provinces and autonomous regions in the PRC as at December 31, 2018, establishing a national presence.

As at the Latest Practicable Date we had a strong project pipeline, with 13 projects under construction and 12 projects held for future development. These projects have an aggregate designed annual treatment capacity of approximately 447.8 million tons, providing a foundation for our future growth. We have considerable project procurement capabilities, and contracted to obtain 15, 15 and 15 new projects respectively in the years ended December 31, 2016, 2017 and 2018.

We have accumulated considerable experience in assessing, executing and successfully integrating acquisitions to expand our operations. In 2014, our Shares were listed on the SGX-ST through the acquisition of HanKore by way of a reverse takeover, which involved the acquisition of 17 existing projects with an aggregate designed wastewater treatment capacity of approximately 795,000 tonnes/day and the further addition of seven new projects after the acquisition. In 2015, we acquired 90% of the equity interests in Dalian Dongda, which boosted our aggregate designed wastewater treatment capacity by approximately 835,000 tonnes/day and elevated our market position as we acquired 16 existing projects and, obtained five new projects after the acquisition. As a result of our acquisitions, we have expanded into new areas of China such as Beijing and Nanjing, through the Reverse Takeover, and we have collected most of the account receivables of Dalian Dongda by helping the relevant local government resolve their issues, demonstrating that our ability to integrate new companies and projects into our Group helps the development and promotes the growth of our business.

*We are devoted to the development of our core technology and have strong research and development capabilities*

As a leading integrated water environmental solutions provider in the PRC, we focus on the development of our own technologies for our projects. Tracing back to 2009 when we operated as a business segment of CEIL, we had our own water technology research team and dedicated research and development personnel, and had invested a significant amount on research and development. We established Everbright Water Technology Development (Nanjing) Limited in 2017, which focuses on the research and development, and technology consulting. In addition, we have also established a technology center, which focuses on the research of applied technologies and acquired the Xuzhou Design Institute in June 2018 which focuses on the survey, mapping, design and consultation of projects relating to roads, bridges, tunnels, water supply, drainage, heat, gas, electricity, construction, landscape, sanitation, highways and water conservancy, as well as the consultation of project costs, review of construction drawings, bidding agency and project management. Upon completion of the acquisition of the Xuzhou Design Institute, it was integrated into the technology center, which is now our Technology and Design Center. We have also continuously improved our core technology strength through various means such as in-house research and development, technology import and collaboration with leading academic institutions. During the Track Record Period, we collaborated with renowned universities in the PRC, including Tsinghua University, Chongqing University and

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Tongji University, in our development projects, with the aim of developing new and innovative technologies that we can apply to the water industry in China, as well as supporting our continued business development and operational efficiency.

For the years ended December 31, 2016, 2017 and 2018, our research and development expenses were HK\$12.2 million, HK\$20.9 million, and HK\$46.5 million, respectively, accounting for 4.1%, 7.3% and 10.6% of our administrative and other operating expenses.

As a result of our efforts in technology development, we had a total of 126 registered patents as at the Latest Practicable Date in relation to a variety of technologies, including a biological deodorization device, a sludge drying device and a sludge compression machine, etc., and we achieved a series of key technological breakthroughs and accomplishments in areas such as biological deodorization systems, low-temperature sludge drying, biological aerated filter, high-efficiency sedimentation tank, ozone catalytic oxidation, non-point source pollution purification treatment, and rainwater treatment systems. We have successfully applied the above technologies to over 20 wastewater treatment projects, which have enhanced the technological efficiency and construction quality of these projects. For example, we have applied our high rate lamella settlement tank technology to our Dalian Malanhe Waste Water Treatment Project Phase II, which significantly increased the amount of pollutants being treated, thereby increasing the efficiency of downstream treatment facilities and reducing total operational costs.

Further, in February 2018, in order to enhance our research and development capabilities, we, together with RBH Reinhold Brenner Holding GmbH, an environment protection company in Germany which has a number of key water technologies and rich industry resources in the water industry, incorporated E+B Umwelttechnik GmbH, which will focus on research and development, engineering services, technology transfer, and equipment sale, procurement, installation and commissioning in areas related to water business, as well as acting as an engineering, procurement, and construction contractor for environmental projects. As at the Latest Practicable Date, E+B Umwelttechnik GmbH was focusing on the research and development of technologies relating to the design, construction and management of municipal and industrial wastewater treatment projects, sludge treatment projects, desalination projects, including the third generation biological aerated filter, SL inclined-tube sedimentation tank, membrane fouling, etc. We believe this joint venture will also help us to develop overseas business channels, enhance international exchanges and collaboration, and acquire talent and technologies from overseas, in order to promote our core technologies globally and explore new opportunities for growth.

### *Unparalleled competitive edge and growth prospects founded on the “Everbright” brand*

Our Controlling Shareholder, CEIL, is a market leader in the environmental protection industry in China. According to the CEIL Annual Report, CEIL (including China Everbright Greentech Limited and us) has a total of 268 projects covering 18 provinces, autonomous regions and municipalities in Northeast, North, East, Central, South, Southwest and Northwest China as well as overseas countries, including Germany, Poland and Vietnam, as at December 31, 2017. The parent company of CEIL,

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China Everbright Group, is a large-scale conglomerate among the Fortune Global 500 and has a well-recognized brand image. China Everbright Group has a diversified business portfolio covering banking, securities, insurance, funds, finance leasing and industries, and has an outstanding track record for its business performance with a national presence.

As a member of China Everbright Group, we have benefited from the reputation, business network and the strong track record of China Everbright Group and CEIL, and have been able to grow in the environmental protection service industry. We are also the largest Central State-Owned Enterprise operating in the wastewater treatment industry in the PRC in terms of treatment capacity in 2017. In our expansion, we will continue to focus our expansion on areas where China Everbright Group has an existing presence and the “Everbright” brand has been well recognized by the local governments, as well as in areas with better economic development and higher per capita income that we have not yet established a presence in. We believe that we are able to offer a range of environmental services to the local governments and customers by working alongside other members of China Everbright Group, which creates synergy between us and the other members of the China Everbright Group. In addition, CEIL entered into a strategic cooperation agreement to provide green finance support for ecological environment construction with the China Development Bank in October 2016, pursuant to which China Development Bank would provide a facility in the amount of RMB20 billion to CEIL from 2016 to 2020. Pursuant to such a strategic cooperation agreement, a loan agreement with a principal amount of RMB5 billion is expected to be entered into between our Group and China Development Bank. As of the Latest Practicable Date, our Group did not have concrete plans to enter into definitive agreements with China Development Bank.

We believe, as part of the leading “Everbright” platform, we will continue to benefit from the recognition of the “Everbright” brand. We will continue to expand our business in other parts of China by leveraging our experience across multiple fields of water environment management services and to develop and operate multiple types of projects at the same locations.

### *Experienced and market-driven management team with strong execution capabilities*

Our management team contributes a wealth of experience and in-depth industry knowledge as we execute our market-oriented business strategies. Our senior management team comprises experts with strong execution capabilities and an average of over ten years of experience in the water industry, in assessing, developing and managing our projects. The extensive industry knowledge, experience and operational expertise of our management team, including Mr. Wang Tianyi, Mr. An Xuesong and Mr. Luo Junling, have contributed to our culture which emphasizes quality, efficiency and market responsiveness. Mr. Wang Tianyi, our chairman and non-executive Director, was the Deputy Mayor of Jinan City of Shandong Province and was the Dean of Shandong Academy of Science prior to joining the Board. Mr. Wang has management experience in government and administrative sectors and he also has extensive experience in corporate business strategies and market development. Mr. Wang is currently also a member of the UNECE PPP Business Advisory Board. Mr. An Xuesong, our chief executive officer and executive Director, has over 15 years of experience in the environmental protection industry and possesses extensive knowledge in mergers and acquisitions, project

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investment and management, accounting management and risk management. Mr. Luo Junling, our executive Director and chief financial officer, has over ten years of experience in the water industry and possesses extensive knowledge in management and finance. We believe that with our management team's experience and capability, we are well-positioned to identify and expand into new opportunities, as well as to capture higher profit margin opportunities.

In addition, we have built a large-scale project management team, engineering team and investment management team. We benefit significantly from their accumulated expertise and hands-on experience to continue to improve the efficiency of our operations and our ability to satisfy our customers' requirements. We believe that we have developed a corporate culture that promotes collaboration, efficiency, motivation, responsibility and achievement, which enables us to take advantage of market opportunities, formulate sound business strategies and execute them effectively.

### OUR BUSINESS STRATEGIES

We aim to execute the following strategies to expand our business and maintain and enhance our position in the water industry in China:

*Continue to strengthen our presence in the Bohai Economic Rim and the Yangtze River Delta, and to expand our services to other economically developed areas, such as the Guangdong-Hong-Kong-Macau Greater Bay Area, the Pearl River Delta, as well as their surrounding suburban and rural areas*

As at December 31, 2018, we had a total of 101 projects in the Bohai Economic Rim and the Yangtze River Delta, representing approximately 91.0% of our total number of projects and approximately 93.1% of our total designed wastewater treatment capacity. We will continue to strengthen our industry position in the Bohai Economic Rim and the Yangtze River Delta by expanding our business into other cities and counties in Shandong province and Jiangsu province, including Jinan, Xinyi and Jiangyin.

Leveraging our industry position in the Bohai Economic Rim and the Yangtze River Delta, which are the key focus areas for environmental protection in China, we will also seek to expand to other areas in the PRC which we believe have strong growth potential, such as the Pearl River Delta region and Guangdong-Hong Kong-Macau Greater Bay Area. We believe that these areas have strong growth potential as their economy is strong and the government authorities in those areas have high credit ratings. In addition, due to the strong industrial development in these regions, we believe that the resulting water pollution creates a substantial demand for water environment management solutions, which we are well-placed to take advantage of, by offering a wide range of services to the government in the region. As we have over ten years of experience in investing, operating and managing wastewater treatment projects in China, we aim to expand into these new regions by leveraging our reputation and the existing Everbright Brand in these regions, as well as to collaborate with other construction companies which maintain good relationships with the local governments to develop new projects. When we select construction companies to collaborate with, we apply our internal selection policies which generally involve a public tender. We also conduct background checks

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against the companies which are interested in collaborating with us, and we then select the appropriate company based on its qualifications, scale of operation, relevant experience in developing similar projects and the persons in charge in respect of the potential project. As at the Latest Practicable Date, we were still identifying suitable potential wastewater treatment projects in China for expansion of our business operation.

We also strategically selected suburbs and rural areas of the PRC, in which the PRC government has been promoting wastewater treatment since 2017. In particular, we plan to focus on the suburbs and rural areas of the Pearl River Delta region and the Guangdong-Hong Kong-Macau Greater Bay Area, as we believe that the governments of these areas have independent financial budgets and the ability to make payments. We aim to develop a sustainable business model in those areas by collaborating with the local governments and continuing to improve our technologies. We believe that with our experience in operating our projects, we have successfully developed projects which are well regarded by different local governments, such as our Ji'nan Wastewater Treatment Project. We believe the success of these projects gives us an advantage over our competitors when we bid for new projects, which is generally via public tender. In addition, as local governments place more emphasis on technical capabilities and the requirements on discharge standards are increasing, we are also well positioned to win new projects by demonstrating our strong research and development capabilities through our Technology and Design Center which is formed by the combination of our technology center and newly acquired design institute, which enables us to integrate the design and operation of projects, as well as to ensure that we satisfy the requisite discharge standards.

Although our current water projects are all based in the PRC, we plan to leverage (i) our presence in Singapore, Hong Kong and Germany where we operate offices and have full time employees to expand our operations out of the PRC, as well as (ii) the existing Everbright Brand in countries such as Vietnam and Poland, thereby allowing us to selectively seek appropriate opportunities to expand our operations to overseas markets, such as Southeast Asia, Central Asia and other countries under the "Belt and Road" initiative.

*Seize policy opportunities in the PRC water industry, further expand our market share and continue to diversify our project portfolio through organic growth and acquisitions and create synergies between our existing projects*

In recent years, due to China's increasingly serious environmental pollution and the building of an eco-friendly society being elevated as a national strategy, the PRC government has adopted numerous policies to promote the rapid development of the environmental protection industry. We will explore new markets and seek to expand our market share by continuing to grow our project pipeline, by leveraging these favorable policies. Other examples include investing in upgrading our existing wastewater treatment projects and offering industrial wastewater treatment services to new industrial parks, and complying with the new standards on the discharge of wastewater imposed by the PRC government pursuant to the new Environmental Protection Law and the Water Pollution Prevention and Control Action Plan.

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In particular, we have expanded our service offering during the Track Record Period to provide industrial wastewater treatment and water environment treatment services, with a particular focus on providing services in addition to municipal wastewater treatment services. We have also demonstrated our business integration capabilities as we expanded our services through various acquisitions, including the Reverse Takeover and the acquisition of Dalian Dongda.

Based on our plan to expand our operation to Jiangsu and Shandong Province, the Yangtze River Delta Area, the Guangdong-Hong Kong-Macau Greater Bay Area as well as overseas markets, we generally take into account the following factors when we identify and evaluate target projects to be acquired: 1) the financial budgets and capabilities of the local governments to make payments; 2) expected scale of operation of the potential projects to be acquired; 3) the portion of the total investment amount that will be attributable to the costs relating to water treatment. Despite the keen competition in the PRC water industry, we believe that our experience, scale of operation and the resources available to us put us in a position where we can take advantage of the favorable PRC policies which give rise to more opportunities for us to further expand our business. When we identify potential acquisition targets, we may either utilize our internal resources or bank facilities to fund such acquisition. As at the Latest Practicable Date, we had not identified any new acquisition target. We believe we are able to leverage our integration capabilities and we plan to build on this experience to continue to further increase our presence in areas where we currently operate wastewater treatment plants, seeking to resolve water pollution problems in different nearby cities by providing various professional solutions. As an integrated water environment solutions provider, we plan to continue to pursue business expansion by exploring opportunities in relatively new types of projects, such as sponge city construction, river-basin ecological restoration, industrial wastewater treatment, reusable water and wastewater heat source pump, etc.

*Enhance our core technologies through innovative research and development initiatives to increase our technical competitiveness*

In light of the increasingly stringent regulations relating to wastewater treatment, we intend to continue to focus on enhancing our research and development capabilities in order to strengthen our technical competitiveness. We have established a technology center which focuses on the research of applied technologies, and we have continuously improved our core technology capability through various means such as in-house research and development, technology import and collaboration with leading academic institutions. We also acquired the Xuzhou Design Institute in June 2018 which focuses on the survey, mapping, design and consultation of projects relating to roads, bridges, tunnels, water supply, drainage, heat, gas, electricity, construction, landscape, sanitation, highways and water conservancy, as well as the consultation of project costs, review of construction drawings, bidding agency and project management. As at the Latest Practicable Date, we had 84 employees working at the technology center and 117 employees working at the Xuzhou Design Institute. Upon the completion of the acquisition of the Xuzhou Design Institute, it combined with our technology center and became our new Technology and Design Center. We plan to continue to expand our technology by developing a new technology platform to be led by our subsidiary, Everbright Water Technology Development (Nanjing) Limited, with a focus on the design of water environmental projects and



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municipal wastewater treatment projects and the development of technology relating to water environmental solutions and municipal wastewater treatment such as biological deodorization, catalytic ozonization, high-density sedimentation tank, etc., which will be supervised by an expert advisory committee comprising esteemed industry leaders and scholars.

With our strengthened research and development capabilities and our multiple grade-A qualifications for the municipal sector, construction sector and engineering consultation upon the acquisition of Xuzhou Design Institute, we aim to be able to provide a full range of water environmental solutions from the research, design and construction to the operation and maintenance of treatment facilities. In addition to the approximately 170 employees currently working at our Technology and Design Center, we plan to increase the number of employees working at our Technology and Design Center by approximately 130 to an aggregate of 300 by 2023, with a team of approximately 30 professionals with qualifications in environmental engineering, mechanical engineering, electric automatization and chemical engineering to be led with experienced individuals with five to ten years of relevant experience focusing on research and development of technologies relating to smart water management system sludge drying, membrane technology, model foundation, mechanical engineering, etc.; approximately a team of 50 professionals with qualifications in water supply and sewage engineering and environmental engineering focusing on water supply and drainage, road, architectural, electrical or structural engineering, landscape designing, etc., among which over 25 will be mid-level or senior engineers; and approximately a team of 50 professionals with qualifications in civil engineering, electrical engineering and landscape architecture to join the design and development team of the Technology and Design Center focusing on the design of water environmental solutions and municipal wastewater treatment projects. Depending on the development of our Technology and Design Center, we may consider to further expand our service offerings to provide project design services to third parties in addition to the services currently provided by Xuzhou Design Institute.

Further, in February 2018, in order to enhance our research and development capabilities, we, together with RBH Reinhold Brenner Holding GmbH, an environment protection Company in Germany in the water industry, incorporated E+B Umwelttechnik GmbH, which will focus on research and development, engineering services, technology transfer, and equipment sale, procurement, installation and commissioning in areas related to the water business, as well as acting as an engineering, procurement, and construction contractor for environmental projects. Since its establishment, E+B Umwelttechnik GmbH has entered into several equipment and technical consulting and service purchase contracts with our subsidiaries for projects including Pulandian Waste Water Treatment Project Phase II (普蘭店市污水處理項目二期) and Xinyi City Waste Water Treatment Project Phase III (新沂城市污水處理項目三期), in relation to the provision of equipment and technology it has developed. As at the Latest Practicable Date, E+B Umwelttechnik GmbH was focusing on the research and development of technologies relating to the investment, design, construction and management of municipal and industrial wastewater treatment projects, sludge treatment projects, desalination projects, including third-generation biological aerated filter, SL inclined-tube sedimentation tank, membrane fouling, etc.. During the Track Record Period, we collaborated with renowned universities in the PRC, including Tsinghua University, Chongqing University and Tongji University, in our development projects, with the aim of developing new and innovative technologies

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that can be applied to the water industry in China, as well as supporting our continued business development and operational efficiency.

We will continue to enhance our research and development efforts to support the growth of our business, and we expect to apply 10% of the net proceeds that we will receive from the Global Offering to be used for enhancing our core technologies through innovative research and development initiatives and acquisitions of advanced technologies.

Other than by increasing the number of employees in the Technology and Design Center to 300 by 2023 and collaborating with renowned universities, we also plan to consult with industry experts to keep updated with the latest development of technologies, in order to continue to enhance our research and development capabilities and core technologies which are important to the growth of our business. We also plan to focus our research on the following areas: a) building an intelligent water system based on hydrology and information on water quality which will complement our wastewater treatment services by focusing on precise dosing, accurate aeration, energy saving and consumption reduction; b) developing membrane technology, advanced oxidation technology and combining these technologies with high density sedimentation tank and catalytic ozonation with an aim to reduce our operation cost and meet higher water quality standards; c) optimizing ozone catalytic process conditions and improving catalytic ozonation efficiency with an aim to produce high efficiency ozonation catalysts; and d) focusing on advanced anaerobic digestion technology, drying incineration technology, developing key equipment (drying incineration machine, incinerator) and sludge pyrolysis technology, and optimizing sludge drying technology at low temperature, coordinating with kitchen waste and other biomass for resource utilization in order to gradually formulate independent sludge anaerobic digestion technology by the development of efficient agitator, heat exchange device, pre-treatment technology and other technologies with an aim to substantially reduce the sludge.

In selecting potential technologies for acquisition, we generally consider the following selection criteria: a) whether the technology is beneficial to our business development, such as the development of our wastewater treatment services and water environment treatment services; b) whether the technology is mature in overseas market but relatively new to the Chinese market; c) whether the acquisition may pose any technical risks or potential infringement of intellectual property; and d) whether the technology has the potential to generate high return without incurring significant investment cost. We believe that the acquisition of advanced technologies is beneficial to our Group.

***Continue to implement management systems to improve the quality and efficiency of our operation and ensure our sustainable and stable development***

We established our ESHS system and risk management system in 2016 to ensure (i) compliance with applicable laws and regulations related to health, environment and safety and social responsibility, and (ii) controllability of operation risks including finance, market, reputational, operational, construction, regulatory and human resources. The ESHS Management System covers Environment, Safety, Health and Society, which is a management system approach to complete the ESHS activities by LEC (Likelihood-exposure-consequence) Assessment Method and PDCA (plan-do-

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check-act) Circulation, and reduces potential unfavorable factors, such as safety injuries, accidents, pollutants, operating costs in business activities through implementation of risk standard operating procedures, thus improving reliability, efficiency, reputation and credibility. We have established relevant departments responsible for the implementation of the ESHS system and risk management system and plan to further improve and strengthen these systems, enhancing the implementation of these systems at our headquarters and at regional and project levels to improve operational management, better control operational risks and ensure our sustainable and stable development.

We have developed a smart water system which will enhance the efficiency of our projects and lower the cost of operation. The system operates in six modules, and we can monitor the operation of our plants remotely. The management of our equipment and our spare part inventory can be carried out remotely through accessing the system on the computers in our regional headquarters, as well as on mobile applications installed on mobile phones. As at the Latest Practicable Date, we had adopted or had plans to adopt the intelligent water system in eight of our wastewater treatment plant, which we believe has increased or will increase the level of automation in our projects, and has enhanced or will enhance the safety and reliability of our operations, lowered or will lower the cost of operation maintenance and the number of maintenance staff, as well as increased or will increase profitability of our projects. We expect to apply the intelligent water system in the majority of our projects in the next two years, and to continue putting effort into research and development to enhance our business.

*Explore different channels of financing to achieve prudent financial and operational management in order to provide sustainable return for our Shareholders*

We operate in a business which requires substantial capital expenditure at an early stage in each of our projects. To enhance our operational and financial efficiency and provide a sustainable return for our Shareholders, we have funded our operations through multiple channels, including (i) bank loans and (ii) fund-raising activities such as the issue of the First Tranche Panda Bonds in 2017, the Second Tranche Panda Bonds in 2018 and the Third Tranche Panda Bonds in 2019. We also regularly review our loan structure in order to optimize the composition and balance between our long-term and short-term liabilities, as well as onshore and offshore loan facilities, and to lower our financing costs.

Other than the proceeds from the Global Offering, we plan to utilize our internal resources, together with bank facilities, bonds and other debt securities issued by our Group for the development of our future projects. In particular, in July 2015, we entered into a loan agreement with International Finance Corporation for a long-term loan of US\$140 million; in October 2016, CEIL entered into a strategic cooperation agreement to provide green finance support for ecological environment construction with the China Development Bank, pursuant to which China Development Bank would provide a facility in the amount of RMB20 billion to CEIL from 2016 to 2020, of which RMB5 billion is expected to be used for the environmental water business; and in July 2017, we issued the First Tranche Panda Bonds with a principal amount of RMB1 billion, bearing a coupon rate of 4.55% for a five-year maturity. In August 2018, we issued the Second Tranche Panda Bonds with a principal amount of RMB800.0 million, bearing a coupon rate of 4.60% (with respect to the type 1 bonds) and of 4.58% (with respect to the type 2 bonds) for a five-year maturity. In January 2019, we issued the Third

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Tranche Panda Bonds with a principal amount of RMB700.0 million, bearing a coupon rate of 3.89% for a five-year maturity period. We plan to continue to explore different channels of financing to achieve operational and financial efficiency.

### OUR BUSINESS

During the Track Record Period, we derived revenue primarily through our integrated water management services, including (i) municipal and industrial wastewater treatment projects and sludge treatment and disposal, (ii) water environment treatment projects, including sponge city construction, and (iii) other projects including water supply, reusable water and, wastewater source heat pump. We typically enter into service concession agreements with our customers, primarily being local governments.

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The following table sets forth our revenue by project phase in which the revenue was recognized for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Wastewater treatment</b>						
Construction revenue	1,133,784	45.5	922,306	25.7	1,738,886	36.5
Operation revenue	766,048	30.6	833,592	23.2	1,178,012	24.7
Finance income	535,187	21.5	573,149	16.0	641,687	13.5
<b>Subtotal</b>	<b>2,435,019</b>	<b>97.6</b>	<b>2,329,047</b>	<b>64.9</b>	<b>3,558,585</b>	<b>74.7</b>
<b>Water environment treatment</b>						
Construction revenue	—	—	1,108,289	30.9	554,445	11.6
Operation revenue	—	—	—	—	4,878	0.1
Finance income	1,859	0.1	26,923	0.7	64,931	1.4
<b>Subtotal</b>	<b>1,859</b>	<b>0.1</b>	<b>1,135,212</b>	<b>31.6</b>	<b>624,254</b>	<b>13.1</b>
<b>Others</b>						
Construction revenue	—	—	80,697	2.2	416,038	8.7
Operation revenue	45,782	1.8	44,834	1.2	54,781	1.1
Finance income	1,729	0.1	1,132	0.1	14,096	0.3
Others <sup>(1)</sup>	9,648	0.4	711	—	100,564	2.1
<b>Subtotal</b>	<b>57,159</b>	<b>2.3</b>	<b>127,374</b>	<b>3.5</b>	<b>585,479</b>	<b>12.2</b>
<b>Total</b>	<b>2,494,037</b>	<b>100.0</b>	<b>3,591,633</b>	<b>100.0</b>	<b>4,768,318</b>	<b>100.0</b>

Note:

(1) Others represent EPC construction, consultancy work and other services where revenue derived from such business is not affected by project phase.

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### Wastewater treatment projects

Our wastewater treatment projects comprise municipal wastewater treatment projects and industrial wastewater treatment projects. In our municipal wastewater projects, we engage in the design, construction and/or operation of wastewater treatment plants under service concession arrangements with local governments. Our municipal wastewater treatment plants treat and discharge municipal wastewater in compliance with the “Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant” (GB18918-2002) as well as other relevant requirements stated in the environmental impact assessment reports approved by the relevant government authorities in the PRC. We charge our customers, who are primarily local governments in the PRC, wastewater treatment fees, mainly based on the volume of discharged wastewater and the agreed tariff during the relevant concession period, in accordance with the terms of the relevant service concession arrangements. For most of our municipal wastewater treatment projects, the service concession agreements set out a guaranteed minimum volume of wastewater to be treated and a guaranteed minimum unit price. The parties to each arrangement determine the key terms, such as unit price, duration of the arrangement or concession period and minimum discharge volume, where applicable, by taking into account various factors, including actual investment, construction and operating costs such as electricity, chemicals and labor expenses, tax and interest rate fluctuations.

In our industrial wastewater treatment projects, we generally provide industrial wastewater treatment services to industrial parks. As at the Latest Practicable Date, we had five industrial wastewater treatment projects in operation.

As at the Latest Practicable Date, we had a total of 79 municipal and industrial wastewater treatment projects in operation, eight under construction and seven held for future development, respectively. The table below sets forth the total designed capacity of our wastewater treatment plants in operation, under construction and held for future development, respectively, under service concession arrangements as at the dates specified:

	As at December 31,		
	2016	2017	2018
	<b>Total Designed Capacity (tonnes/day)</b>		
In Operation <sup>(1)</sup>	3,795,000	3,835,000	3,865,000
Under Construction	30,000	30,000	290,000
Held for Future Development	10,000	60,000	416,600

*Note:*

- (1) This refers to treatment plants in operation (including any project in trial operation or pending commencement of operation).

During the Track Record Period, we mainly developed and operated our wastewater treatment projects through the BOT and TOT project models. For the years ended December 31, 2016, 2017 and 2018, our wastewater treatment line of business accounted for 97.6%, 64.9% and 74.7%, respectively, of our revenue and 96.5%, 78.3% and 75.9%, respectively, of our gross profit. Details of our wastewater treatment projects, including the location and status of each project as well as details of each service

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concession arrangement, are set out in “Business — Our Projects under Service Concession Arrangements”.

### **Water environment treatment projects**

We engage in the design, construction and operation of our water environment treatment projects, which involve black-odor river treatment, watershed management, sponge city construction and a series of ecological restoration works, under service concession arrangements with the local governments in the PRC. As at the Latest Practicable Date, we had one water environment treatment project in operation, two under construction and three held for future development. Under these projects, we provide a number of different services such as wastewater treatment projects, rainwater pump stations, drainage networks and rainwater storage facilities, and we perform various types of operation and maintenance works such as source pollution control of waste vents along the river, river dredging, river widening, river training, river water ecology remediation, river water quality improvement, riverbank greening and riverside environmental management. Our water environment treatment projects under construction are expected to have an aggregate total designed capacity of 240,000 tonnes per day which meet Class I standard A water quality upon completion of construction. We charge our customers, who are primarily local governments in the PRC, service fees based on a combination of factors, including the extent to which the facility meets the relevant contractual requirements and expected return.

For details, see “Business — Our Projects under Service Concession Arrangements — Project Overview List”.

During the Track Record Period, we had developed and constructed our water environment treatment projects through the BOT project model. For the years ended December 31, 2016, 2017 and 2018, our water environment treatment projects accounted for 0.1%, 31.6% and 13.1%, respectively, of our revenue, and 0.2%, 19.4% and 11.5% respectively, of our gross profit. Details of our water environment treatment projects, including the location and status of the project as well as details of the service concession arrangements, are set out in “Business — Our Projects under Service Concession Arrangements”.

### **Other Projects**

In addition to our wastewater treatment projects and water environment treatment projects, we also engage in the design, construction, operation and maintenance, where applicable, of (i) water supply projects, which include replenishment of reservoirs, water plant construction and water supply, urban-rural water supply, reservoir construction and water supply pipeline network construction, (ii) reusable water projects, which utilize the water processed by our wastewater treatment plants for water resources recycling for power plants or produce ultra-pure water from power plants for industry recycling, and (iii) wastewater source heat pump projects, which extract low-grade thermal energy sources in the water discharged by our wastewater treatment plants to power heating and air-conditioning in winter and for buildings in summer for energy conservation and environmental protection. We undertake these projects under service concession arrangements with the local governments in the PRC.

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As at the Latest Practicable Date, we had six other projects, comprising four reusable water projects and two wastewater heat source pump projects, respectively, in operation. The table below sets forth the total designed capacity of our other projects in operation, under construction and held for future development, respectively, under service concession arrangements as at the dates specified:

	As of December 31,		
	2016	2017	2018
	<b>Total Designed Capacity (tonnes/day)</b>		
In Operation <sup>(1)</sup>	81,600	81,600	81,600
Under Construction	nil	nil	150,000
Held for Future Development	nil	nil	140,000

*Note:*

- (1) This refers to treatment plants in operation (including any project in trial operation or pending commencement of operation).

During the Track Record Period, we developed and operated these projects through the BOT, BOO and self-operation project models. For the years ended December 31, 2016, 2017 and 2018, our other projects accounted for an aggregate of 1.9%, 3.5% and 10.1%, respectively, of our revenue and 2.7%, 2.6% and 9.3%, respectively, of our gross profit.

Other than integrated water management services, during the Track Record Period, we also provided EPC construction, consultation work and other services, which accounted for approximately 0.4%, nil and 2.1% of our revenue for the years ended December 31, 2016, 2017 and 2018, respectively.

### PROJECT MODELS

As at the Latest Practicable Date, we had a total of 111 projects, including 86 projects in operation, 13 projects under construction and 12 projects held for future development. For most of our service concession arrangement projects, we adopted the BOT or TOT project model according to the relevant service concession arrangements. For details of the public-private ownership operation model, see “Industry Overview — Main Market Drivers of China’s Water Industry — Growing Private Sector Investment and Funding”. A detailed description of each project model we adopted during the Track Record Period is set out below:

#### **BOT Project Model**

Prior to the commencement of a BOT project, we will enter into a concession agreement and a service agreement (collectively, the “**BOT Agreements**”) with the relevant municipal authority. Pursuant to the BOT Agreements, we are required to incorporate a project company in accordance with the relevant laws and regulations of the relevant municipality.

The project company will undertake to effect the investment in, and design, construction, operation and maintenance of, the relevant BOT project. After the project company is incorporated,



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such project company will raise necessary funds for the completion of the BOT project (including equity and debt financing), establish the relevant project departments, and complete the project construction within the period as prescribed in the BOT Agreements and in accordance with the laws and regulations of the relevant municipality. After the project facilities are completed, the project company will undertake any necessary adjustments such that the project facilities fulfill the prescribed standards pursuant to the BOT Agreements. Once the water discharge becomes stable and meets the prescribed standards, the project will formally enter the business operation stage.

During the business operation stage, the project company will supply wastewater treatment services according to the prescribed quality requirements for the intake and discharge of water as prescribed in the BOT Agreements, maintain the wastewater treatment equipment and carry out repairs or replacements and improvements when necessary, and accept scheduled and ad-hoc examinations of the project facilities by the relevant municipal authority.

The relevant municipal authority will calculate and make payment of the wastewater treatment fee to the project company for the preceding month based on the actual quantity of the wastewater treated in that month or the basic wastewater treatment quantity and the wastewater treatment unit price as prescribed in the BOT Agreements. For our wastewater treatment projects, we often agree a guaranteed minimum water treatment volume which applies for the purposes of agreeing the aggregate amount of tariff payable to us. For our water environment treatment projects, our pricing mechanism is based on a combination of tariffs taking into account the maximum designed capacity and the operational efficiency of the project.

The concession period for our BOT projects usually lasts for 20 to 30 years. After the concession period expires, the project company will transfer the project facilities and such relevant documents and materials, including but not limited to the operation records and design blueprints, to the relevant municipal authority without any compensation.

As at December 31, 2018, under our service concession arrangement projects, we had 68 municipal and industrial wastewater treatment projects, three water environment treatment projects, and six other projects under the BOT project model (in operation and under construction). For details of our BOT projects under service concession arrangements, see “Business — Our Projects under Service Concession Arrangements — Project Overview List”.

### **TOT Project Model**

Prior to commencement of a TOT project, we will enter into a concession agreement, a service agreement and an asset transfer agreement (collectively, the “**TOT Agreements**”) with the relevant municipal authority. Pursuant to the TOT Agreements, we are required to incorporate a project company in accordance with the laws and regulations of the relevant municipality. Our project company will acquire the project built by a third party or the local government, and will undertake to effect the investment in, and the operation and maintenance of, the relevant TOT project. After our project company is incorporated, such project company will raise funds as are necessary for the

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completion of the TOT project (including equity and debt financing), and purchase these existing project assets from the municipal authority in accordance with the TOT Agreements. Our project company will then proceed to (a) take over the project assets which are transferred from the municipal authority to our project company in accordance with the project asset transfer list in the TOT Agreements; and (b) carry out performance tests as are necessary on the existing project assets.

Following completion of the transfer of the project assets, our project company will put in place a scheme to improve and enhance the technological capabilities of the existing project assets (if necessary), and, with the approval of the municipal authority, implement the scheme. Our project company may also undertake to provide the technological capabilities to allow the existing project assets to be controlled remotely through a centralized system so as to improve the efficiency and stability of facility operations.

Our TOT business is largely similar to our BOT business at the business operation stage. For details, see “Business — Project Models — TOT Project Model”.

As at December 31, 2018, under our service concession arrangement projects we had 18 municipal and industrial wastewater treatment projects under the TOT project model (including projects in operation and under construction). For details of our TOT projects under service concession arrangements, see “Business — Our Projects under Service Concession Arrangements — Project Overview List”.

Regardless of whether they are under the BOT or TOT model, most of our projects have the following characteristics:

- We receive payments from customers only in the business operation stage of each project, typically for 20 to 30 years.
- Through the payment received from customers, we recoup project construction costs or acquisition costs to cover our operational costs and earn profits.
- As a result of these business models, we incur significant cash outflows in the early years of a project, and are exposed to operational risk and the credit risk of our customers until the end of the service period as stipulated in the contract.

For details of other major terms under our service concession arrangements of our projects, please see the paragraph headed “— Service Concession Arrangements” below in this section.

### **Other Project Models**

During the Track Record Period, we adopted the BOO, self-operation and BT Project Models for some of our projects.

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### BOO Project Model

For BOO projects, we will incorporate a project company in accordance with the relevant laws and regulations of the relevant municipality. The project company will undertake the investment in, and construction, operation and maintenance of, the relevant BOO project. After the project company is incorporated, such project company will raise the funds necessary for the completion of the BOO project (including equity and debt financing), establish the relevant project departments, enter into a service concession agreement (the “**BOO Agreements**”) and complete the project construction in accordance with the laws and regulations of the relevant municipality.

Pursuant to the BOO Agreements, the project company will supply reusable water according to the prescribed requirements in the BOO Agreements, maintain the equipment and carry out repairs or replacements and improvements when necessary, and accept scheduled and ad-hoc examinations of the project facilities by the relevant municipal authority or enterprise client.

The relevant municipal authority and enterprise client will calculate and make payment of the service fee to the project company for the preceding month based on the actual service quantity of that month or the basic service quantity as prescribed in the BOO Agreements and the service unit price. The project company owns the BOO project without being required to hand over the project to the relevant municipal authority or enterprise client on expiry of the terms of the contract.

As at December 31, 2018, we had one reusable water project under the BOO project model in operation.

### Self-operation Project Model

Our self-operation projects are largely similar to our BOT or BOO projects, except that the service concession agreements do not specify whether the project shall be handed over to the relevant municipal authority or enterprise client on expiry of the terms of the contract. We will negotiate such terms with the relevant parties towards the expiry of the term of the service concession agreement.

As at December 31, 2018, we had two self-operation projects in operation.

### BT Project Model

In 2016, we adopted the BT project model for one project. As the BT project model is no longer adopted in the PRC due to legal restrictions, we had not adopted the BT project model for any of our new projects since December 31, 2016.

## SERVICE CONCESSION ARRANGEMENTS

During the Track Record Period, substantially all of our projects were undertaken under service concession arrangements. For the years ended December 31, 2016, 2017 and 2018, approximately

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99.6%, 100.0% and 97.9%, respectively, of our revenue was derived from our service concession arrangements. A service concession arrangement is an arrangement whereby a government or other public sector body (the “**Government Grantor**”), contracts with a private operator to develop (or upgrade), operate and maintain infrastructure assets including wastewater treatment plants. The grantor and the operator enter into concession agreement(s) which regulate the scope and price of services that the operator provides by utilizing the assets, and also sets out the treatment of any significant residual interests in the assets at the end of the term of the arrangement.

Other than projects undertaken under service concession arrangements, we had also generated revenue from EPC construction, consultancy work and other services we provided. These services contributed approximately 0.4%, nil and 2.1% of our revenue for the years ended December 31, 2016, 2017 and 2018, respectively.

### KEY TERMS OF OUR SERVICE CONCESSION ARRANGEMENTS

Our service concession arrangements set out the terms on which the concession is granted to us and the rights and obligations of each party to the agreement, in respect of the construction and/or operation of the relevant plant. The following sets out a summary of the key contractual terms which apply to most of our typical agreements with our customers under service concession arrangements. We adopt the BOT or TOT project models for most of our service concession arrangement projects. Some of the contractual terms discussed below may not be applicable in every case, depending on the project model adopted. See “Business — Project Models” for further details of the typical models adopted for our projects.

<u>Key terms</u>	<u>Project type</u>	
	<u>BOT</u>	<u>TOT</u>
Construction	✓	×
Testing and Acceptance	✓	×
Trial Operation	✓	×
Initial Transfer	×	✓
Purchase Price and Payment	×	✓
Guaranteed Minimum Volumes	✓	✓
Water Quality	✓	✓
Tariff and Settlements	✓	✓
Tariff Adjustments	✓	✓
Operation and Maintenance	✓	✓
Concession Rights	✓	✓
Land Use Rights and Building Ownership	✓	✓
Subsequent Transfer	✓	✓
Termination	✓	✓
Application of IFRIC 12	✓	✓

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### **Construction (applicable to the BOT project model)**

During the construction phase of our BOT projects, our primary responsibilities include project design, civil engineering works, procuring and installing equipment and applying for and obtaining the approvals for the commencement of construction work. In certain cases, the government grantor which enters into the service concession agreement with use are required to assist us to obtain those approvals. The local governments or their authorized representatives are generally responsible for the construction of the external wastewater pipelines to our plants and for providing the land for construction of the plants. Before the commencement of construction, we apply to the relevant government departments for construction permits. After the completion of construction, we apply for the relevant completion inspection and complete acceptance formalities from relevant authorities and work with the local governments to complete relevant inspection and acceptance processes.

### **Testing and Acceptance (applicable to the BOT project model)**

After completion of the construction of a plant we built, we will conduct testing of the plant to ensure that it will operate in accordance with the terms of the service concession agreement. Upon completion of the testing process, we will seek approval to commence trial operation (where required) in accordance with the terms of the service concession arrangements.

### **Trial Operation (applicable to the BOT project model)**

Under some of our service concession arrangements, we are required to carry out a trial operation period before we commence commercial operation. During the trial operation period, the local governments are responsible for supplying wastewater and sludge that meets certain specified standards and we are entitled to payment at a certain unit price if the treated wastewater and sludge meets the stipulated standards.

### **Initial Transfer (applicable to the TOT project model)**

For newly built plants under the TOT model, where we are not responsible for the construction of the project, the local governments will transfer the plants to us on the date specified in the service concession arrangements, subject to having completed relevant trial operation (if required). For existing plants that are in operation which are transferred to us under TOT arrangements, either the local government or the transferors designated by the government will similarly transfer the plants to us on the date specified in the service concession arrangements. The local governments or the transferors designated by the government are generally required to ensure the plant and equipment transferred to us meet the standards and conditions specified in the relevant concession agreements. We do not acquire ownership of the plants on transfer, but obtain concession rights for the relevant plants through the service concession arrangements we enter into with the local government or the transferor designated by the government.

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### **Purchase Price and Payment (applicable to the TOT project model)**

Under the TOT project model, in accordance with the terms stipulated in the service concession arrangements, we are required to pay a certain amount of consideration on transfer, which is determined based on an asset appraisal report issued by an independent valuer, in order to obtain the concession rights for the relevant plants. We usually pay the purchase price for the concession rights in installments pursuant to the specific terms of the relevant agreements.

### **Guaranteed Minimum Volumes (applicable to the BOT and TOT project models)**

As at December 31, 2018, 58 of our wastewater treatment plants in operation operated under service concession arrangements with guaranteed minimum volume provisions. For our projects under construction, the concession arrangements for 7 of the projects include guaranteed minimum water treatment volumes.

Under a guaranteed minimum volume arrangement, if the treatment or supply volume is less than the guaranteed minimum volume set out in the relevant service concession agreements, we are entitled to charge a tariff based on the guaranteed minimum volume rather than the actual volume of wastewater treated, resulting in a predictable minimum cash flow to us for that project. See “Business — Our Projects under Service Concession Arrangements — Projects Overview List” for details of the guaranteed minimum volume provisions for our specific projects.

### **Water Quality (applicable to the BOT and TOT project models)**

For our wastewater treatment projects, the service concession arrangements usually specify the quality of the incoming wastewater to be treated and the quality of outgoing water after being treated by our treatment plants. If the pollutants in the incoming wastewater significantly exceed the levels stipulated in the Discharge Standard for Municipal Wastewater (《污水排入城鎮下水道水質標準》) (GB/T31962-2015), we are usually entitled to reimbursement from the local government in accordance with our service concession agreements. If the quality of the treated wastewater does not meet the agreed levels as set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》) (GB18918-2002) due to problems with our treatment of the wastewater, we are responsible for any resultant direct economic damages and may be liable to fines.

For our water supply projects, the service concession agreements require the local government to ensure that the incoming raw water meets the Surface Water Quality Standard 《地表水環境質量標準》 (GB3838-2002) Class III or above. We are required to ensure that the quality of the purified tap water meets the Standards for Drinking Water Quality 《生活飲用水衛生標準》 (GB5749-2006).

For our reclaimed water projects, depending on the end-user’s proposed use, the reclaimed water must comply with the applicable standards prescribed by the PRC government. For details of the prescribed standard, see “Regulatory Overview — Quality Standard”.

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### **Tariffs and Settlements (applicable to the BOT and TOT project models)**

We generally invoice the local governments or the end users monthly during our plants' commercial operation. Our customers are generally required to pay our invoices within 5 to 30 days under the terms of the service concession agreements or the monthly invoices issued to the end users.

For our wastewater treatment projects, we generally issue invoices to the local governments on a monthly basis and the tariff is usually set and calculated by the local governments according to formulas stipulated in the relevant service concession agreements. The formulas adopted vary between projects, but they generally take into account factors including the actual investment we agreed to make in the project, our construction and operating costs and the actual amount of wastewater being treated during the previous pricing period to determine tariff rates that provide us with a reasonable return on investment as mutually agreed between the parties to the service concession agreements. For projects involving the treatment of sludge, the fees are typically calculated based on the volume of treated sludge, multiplied by the unit price in the relevant service concession agreements. The unit price pricing mechanism is determined with reference to our costs, taxes, estimated treatment volumes, investment amounts and invest returns.

For our water supply projects, we expect to issue invoices to the end users on a monthly basis according to the volume of tap water consumed by the end users, multiplied by the unit price as determined under relevant laws and regulations, taking into account our operational costs. As at the Latest Practicable Date, our water supply projects were under construction and no operation revenue was generated by our water supply projects.

### **Tariff Adjustment (applicable to BOT and TOT project models)**

We can generally make requests to the local governments to adjust the unit price according to the relevant concession agreement to reflect changing operation costs and consumer price index, improvement on our treatment methods to meet new requirements or approvals from the government to reconstruct or expand our plants. For risks relating to the tariff adjustment, see "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to adjust the tariff or unit price charged for our services in a timely manner to fully reflect any increase in the actual costs of our service concession arrangement projects. In addition, the price for tap water supply is controlled and adjusted from time to time by the competent government authorities and we do not have control over such prices or adjustments." Furthermore, for most of our wastewater treatment projects, the service concession arrangements usually stipulate a minimum intake volume of wastewater being treated and a guaranteed minimum unit price. When the actual volume of treated wastewater falls below the prescribed guaranteed minimum volume, we are entitled to receive the guaranteed minimum tariff in accordance with the relevant service concession arrangements. For details, see "Business — Key Terms of Our Service Concession Arrangements — Guaranteed Minimum Volumes (applicable to the BOT and TOT project models)".

### **Operation and maintenance (applicable to the BOT and TOT project models)**

Under the BOT and TOT project models, we are generally responsible for maintaining and repairing the plants at our own cost during the term of the concession. We typically schedule repairs of a particular plant as we consider appropriate. In the event that the maintenance or repairs may lead to

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a material decrease in our treatment capacity, we are required to give our customer and the relevant environmental authorities prior notice. In such case, we may only commence maintenance or repairs following the approval of our customer.

### **Concession Rights (applicable to the BOT and TOT project models)**

We are granted the exclusive concession rights to invest, construct, operate and maintain the plants by the local governments or their authorized representatives. The concession period is usually between 20 and 30 years.

### **Land Use Rights and Building Ownership (applicable to the BOT and TOT project models)**

For our BOT and TOT project models, the local governments will transfer the land use rights for the plant to us or allow us to use the land during the concession period as set out in the service concession agreements. We are granted the exclusive use of the land for the agreed purposes only. For some of our projects, when the land use right is transferred to us by the local governments, we will pay a specified consideration to purchase the relevant land use rights. In those cases, the local governments are required to assist us in obtaining the land use rights and relevant certificates, and any failure to do so would entitle us to terminate the contract or require the local government to fulfill its obligations, take rectification actions and/or compensate for damages according to service concession arrangement.

### **Transfer (applicable to the BOT and TOT project models)**

In general, upon expiration of a concession period under the BOT or TOT project models, we are required to transfer the relevant plants to the local governments at nil consideration. We are generally required to ensure that the plants operate properly before the expiration of a concession period, and to carry out repair work as necessary. We have the right to transfer the plants to the local governments before a concession period expires when certain events occur, such as a default by the local governments in scheduled payments. In those cases, we will be entitled to compensation calculated in accordance with the terms of the service concession arrangements. After the transfer of the plants to the local governments, we will no longer be responsible for any further maintenance towards the plants. However, in some cases, we will have to provide a warranty to the local governments. During the warranty period, we are responsible for the maintenance of the plants at our cost. As none of the concession periods for our service concession arrangement projects had expired as at the Latest Practicable Date, we have not yet provided any such warranty to any local government.

### **Termination (applicable to the BOT and TOT project models)**

A service concession arrangement may be terminated by either party due to the occurrence of an event of default as stipulated in the relevant agreements. For example, events of default by the local governments include their failure to make scheduled payments on time, whereas events of default by



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us may include failing to complete the construction of a project in accordance with the agreed timetable. Where the agreement is terminated by one party due to the other party's default, the terminating party is entitled to damages or other compensation in accordance with the relevant service concession agreement.

### **Application of IFRIC 12 (applicable to the BOT and TOT project models)**

Our BOT and TOT projects are accounted for as service concession agreements under IFRIC 12. We recognize construction revenues while not receiving any cash payment during the construction phase of BOT projects but the actual cash flow will only be received and recognized during the operation phase as payments for our operational services. And we don't recognize construction revenue for TOT projects, as TOT projects have no construction phase. For more information on such accounting treatment, see "Financial Information — Factors Affecting our Results of Operations — Impact of the Accounting Treatment of Service Concession Arrangements" and "Risk Factors — Risks Relating to our Business and Industry — Changes in the relevant 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".

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### OUR PROJECTS UNDER SERVICE CONCESSION ARRANGEMENTS

We have a nationwide presence with our project network covering provincial-level administrative divisions in China. As at the Latest Practicable Date, we had a scalable project portfolio of an aggregate of 86 projects in operation, 13 projects under construction and 12 projects held for future development, respectively. The map below sets out the geographic coverage of our projects as at December 31, 2018. We manage our network through four regional headquarters — Jinan and Zibo, Shandong province, Nanjing, Jiangsu province and Dalian, Liaoning province.



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The following table sets out the total number of our wastewater treatment projects, water environment treatment projects, and other projects under service concession arrangements (in operation, under construction and held for future development) as of December 31, 2016, 2017 and 2018:

Total Projects under Service Concession Arrangements												
As of December 31,												
	2016 <sup>(2)</sup>				2017				2018			
	In Operation <sup>(1)</sup>	Under Con- struction	Held for Future Develop- ment	Sub- total	In Operation <sup>(1)</sup>	Under Con- struction	Held for Future Develop- ment	Sub- total	In Operation <sup>(1)</sup>	Under Con- struction	Held for Future Develop- ment	Sub- total
BOT	48	7	2	57	54	12	7	73	64	13	13	90
TOT	18	0	0	18	18	0	0	18	18	0	0	18
BOO	1	0	0	1	1	0	0	1	1	0	0	1
Others <sup>(2)</sup>	3	0	0	3	2	0	0	2	2	0	0	2
<b>Total</b>	<u>70</u>	<u>7</u>	<u>2</u>	<u>79</u>	<u>75</u>	<u>12</u>	<u>7</u>	<u>94</u>	<u>85</u>	<u>13</u>	<u>13</u>	<u>111</u>

Investment Amount of Projects under Service Concession Arrangements						
As of December 31,						
	2016		2017		2018	
	Total Projects	Total Investment Amount (RMB in million) <sup>(3)</sup>	Total Projects	Total Investment Amount (RMB in million) <sup>(3)</sup>	Total Projects	Total Investment Amount (RMB in million) <sup>(3)</sup>
In Operation <sup>(1)</sup>	70	N/A	75	N/A	85	N/A
Under Construction	7	1,874.5	12	4,363.5	14	4,960.8
Held for Future Development	2	388.0	7	2,149.9	12	3,970.5

Notes:

- (1) Includes any project in trial operation or pending commencement of commercial operation.
- (2) We adopted the BT project model for one project for the year ended December 31, 2016. We had not adopted the BT project model for our new projects since the year ended December 31, 2016 as this project model is no longer adopted in the PRC due to legal restrictions.
- (3) Total investment amount is not applicable for projects in operation.

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## Project Overview List

The following tables set out our service concession arrangement projects as at the Latest Practicable Date:

### Projects in Operation

No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement			Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
								Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Treatment Volume (tonnes/day)		
<b>Wastewater Treatment (unless otherwise indicated, all the following projects treats municipal wastewater)</b>												
<b>Shandong Region</b>												
1.	Qingdao	Qingdao Waste Water Treatment Project (Maidao Plant) (青島污水處理項目 (麥島廠))	In operation	Everbright Water (Qingdao) Limited (光大水務 (青島) 有限公司)	60	BOT	August 31, 2003	25	140,000	135,000	Class I Standard B	August 2004
2.	Qingdao	Qingdao Waste Water Treatment Project (Haibohe Plant) (青島污水處理項目 (海泊河廠))	In operation	Everbright Water (Qingdao) Limited (光大水務 (青島) 有限公司)	60	TOT	August 31, 2003	25	80,000	75,000	Class II	August 2004
3.	Qingdao	Qingdao Waste Water Treatment Project (Maidao Plant) (青島污水處理項目 (麥島廠擴建改造))	In operation	Everbright Water (Qingdao) Limited (光大水務 (青島) 有限公司)	60	BOT	May 10, 2016	23	N/A	140,000	Class I Standard A	September 2015
4.	Zibo	Zibo Waste Water Treatment Project (Southern & Northern Plants) (淄博污水處理項目 (南郊廠及北廠))	In operation	Everbright Water (Zibo) Limited (光大水務 (淄博) 有限公司)	100	TOT	September 26, 2005	25	250,000	220,000	Class II	December 2015
5.	Zibo	Zibo Waste Water Treatment Project (Upgrading) (淄博污水處理項目 (升級改造項目))	In operation	Everbright Water (Zibo) Limited (光大水務 (淄博) 有限公司)	100	TOT	August 28, 2006	22	N/A	N/A	Class I Standard A	January 2006
6.	Zibo	Zibo High-tech Zone Waste Water Treatment Project (淄博韓蘭高新區污水處理項目)	In operation	Everbright Water (Zibo) Limited (光大水務 (淄博) 有限公司)	100	BOT	July 13, 2006	25	100,000	88,000	Class I Standard A	May 2006

- (1) Unless otherwise indicated, the date of commencement of commercial operation for all the following projects operating under the TOT business model refers to the one after the initial transfer from the municipal authority to our project company.
- (2) Tariffs marked with <sup>new</sup> are no longer applicable as new tariffs are being charged by the plant after having completed its upgrading or expansion projects.
- (3) The tariff was RMB0.98/ton prior to May 1, 2011 and was RMB1.13/ton prior to October 1, 2016.
- (4) The tariff was RMB0.95/ton prior to May 1, 2011 and was RMB1.10/ton prior to October 1, 2016.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
7.	Ji'nan	Ji'nan Waste Water Treatment Project (Plant 1 & 2) (濟南污水處理項目 (一廠及二廠))	In operation	Everbright Water (Ji'nan) Limited (光大水務(濟南)有限公司)	100	November 18, 2006	TOT	October 3, 2006	30	420,000	Plant 1: 200,000 <sup>(5)</sup> 220,000 <sup>(5)</sup> Plant 2: 120,000 <sup>(6)</sup> 140,000 <sup>(6)</sup> 160,000 <sup>(6)</sup> 180,000 <sup>(6)</sup>	0.75*	Class I Standard A	November 2006
8.	Ji'nan	Ji'nan Waste Water Treatment Project (Plant 1 & 2 Expansion and Upgrading) (濟南污水處理項目 (一廠及二廠擴建升級項目))	In operation	Everbright Water (Ji'nan) Limited (光大水務(濟南)有限公司)	100	December 31, 2009	BOT	July 17, 2008	28	80,000	450,000 <sup>(7)</sup>	1.012	Class I Standard A	March 2008
9.	Ji'nan	Ji'nan Waste Water Treatment Project (Plant 1) Expansion (濟南污水處理項目 (一廠) 擴建)	In operation	Everbright Water (Ji'nan) Limited (光大水務(濟南)有限公司)	100	June 6, 2016	BOT	August 1, 2015	21	50,000	500,000 <sup>(8)</sup>	1.07	COD≤45 mg/L and NH <sub>3</sub> -H <sub>2</sub> ≤ 2 mg/L, Class I for other indicators	October 2015
10.	Ji'nan	Ji'nan Xike Waste Water Treatment Project (Plant 4) (濟南西客污水處理項目 (四廠))	In operation	Everbright Water (Ji'nan) Limited (光大水務(濟南)有限公司)	100	June 1, 2010	BOT	March 26, 2009	26	30,000	22,500 <sup>(9)</sup> 25,000 <sup>(9)</sup> 30,000 <sup>(9)</sup>	1.1	Class I Standard A	April 2009
11.	Ji'nan	Ji'nan Xike Waste Water Treatment Project (Plant 4) Phase II (濟南西客污水處理項目 (四廠) 二期)	In operation	Everbright Water (Ji'nan) Limited (光大水務(濟南)有限公司)	100	August 8, 2016	BOT	February 24, 2016	30	70,000	40,000 <sup>(10)</sup> 50,000 <sup>(10)</sup> 60,000 <sup>(10)</sup>	0.98	COD≤45 mg/L and NH <sub>3</sub> -H <sub>2</sub> ≤ 2 mg/L, Class I Standard A for other indicators	March 2016

(5) The guaranteed minimum treatment volume (tonnes/day) for Plant 1 will be 200,000 from the first year of commercial operation and shall increase to 220,000 for the second year and thereafter.

(6) The guaranteed minimum treatment volume (tonnes/day) for Plant 2 will be 120,000 from the first year of commercial operation and shall increase to 140,000 for the second year, 160,000 for the third year and 180,000 for the fourth year and thereafter.

(7) During the period from the completion of the expansion project in 2009 to the date prior to the commercial operation, the guaranteed minimum treatment volume was 40,000 tonnes/day; after the commercial operation commenced, the guaranteed water volume was 42,000 tonnes/day; in 2010, the guaranteed water volume was 43,000 tonnes/day; from 2011 to the end of the concession period, the guaranteed water volume is 45,000 tonnes/day.

(8) After completion of the expansion, the guaranteed minimum treatment volume stipulated for the service concession arrangement of this project is the total guaranteed minimum treatment volume of Plant 1 and Plant 2.

(9) The guaranteed minimum treatment volume (tonnes/day) will be 22,500 from the first year of commercial operation and shall increase to 25,000 for the second year and 30,000 for the third year and thereafter.

(10) The guaranteed minimum treatment volume (tonnes/day) will be 40,000 from the first year of commercial operation and shall increase to 50,000 for the second year and 60,000 for the third year and thereafter.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
12.	Zibo	Zibo Zhoucun Waste Water Treatment Project Phase I (淄博周村污水處理項目一期) (also treats industrial wastewater)	In operation	Everbright Water (Zibo Zhoucun) Water Purification Co., Ltd. (光大水務(淄博周村)淨水有限公司)	100	November 26, 2009	BOT	October 26, 2007	25	40,000	35,200	1.10 <sup>(1)</sup> *	Class I Standard B	December 2007
13.	Zibo	Zibo Zhoucun Waste Water Treatment Project Phase I Upgrading (淄博周村污水處理項目一期提標改造) (also treats industrial wastewater)	In operation	Everbright Water (Zibo Zhoucun) Water Purification Co., Ltd. (光大水務(淄博周村)淨水有限公司)	100	April 11, 2017	BOT	December 29, 2017	16.5	N/A	N/A	1.447	Above Class I Standard A	February 2017
14.	Binzhou	Binzhou Boxing Waste Water Treatment Project (Phase I) (濱州博興污水處理項目(一期))	In operation	Everbright Water (Boxing) Limited (光大水務(博興)有限公司)	100	April 1, 2008	BOT	November 9, 2007	25	30,000	26,400	0.75*	Class I Standard B	March 2008
15.	Binzhou	Binzhou Boxing Waste Water Treatment Project (Upgrading and Phase II Expansion) (濱州博興污水處理項目(升級改造及二期升級、擴建項目)) (also treats industrial wastewater)	In operation	Everbright Water (Boxing) Limited (光大水務(博興)有限公司)	100	October 26, 2010	BOT	January 30, 2008	25	30,000	26,400	1.04 <sup>(2)</sup>	Class I Standard B	April 2008
16.	Binzhou	Binzhou Boxing Waste Water Treatment Project (Upgrading and Expansion) (濱州博興污水處理項目(升級改造及擴建項目)) (also treats industrial wastewater)	In operation	Everbright Water (Boxing) Limited (光大水務(博興)有限公司)	100	July 25, 2015	BOT	August 15, 2014	25	20,000	17,600	1.22	Class I Standard A	September 2014
17.	Ji'nan	Ji'nan Licheng Waste Water Treatment Project (Plant 3) Phase I (濟南歷城污水處理項目(三廠)一期)	In operation	Everbright Water (Ji'nan Licheng) Limited (光大水務(濟南歷城)有限公司)	100	October 1, 2009	BOT	August 1, 2008	26	100,000	60,000 <sup>(3)</sup> 70,000 <sup>(3)</sup> 80,000 <sup>(3)</sup> 100,000 <sup>(3)</sup>	0.81*	Class I Standard A	December 2008

(11) The tariff was RMB1.10 prior to April 11, 2017, and was RMB0.95 prior to August 25, 2012.

(12) The tariff was RMB0.9 prior to October 26, 2010.

(13) The guaranteed minimum treatment volume (tonnes/day) will be 60,000 from the first year of commercial operation and shall increase to 70,000 for the second year, 80,000 for the third year and 100,000 for the fourth year and thereafter.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
18.	Ji'nan	Ji'nan Licheng Waste Water Treatment Project (Plant 3) Phase II (濟南歷城污水處理項目(三廠)二期)	In operation	Everbright Water (Ji'nan Licheng) Limited (光大水務(濟南歷城)有限公司)	100	November 1, 2013	BOT	November 18, 2011	25	100,000	150,000 <sup>(14)</sup> 170,000 <sup>(14)</sup> 190,000 <sup>(14)</sup>	1.07	Class I Standard A	October 2012
19.	Ji'nan	Huashan Waste Water Treatment Project (華山水質淨化項目)	In operation	Everbright Water (Ji'nan Licheng) Limited (光大水務(濟南歷城)有限公司)	100	August 23, 2018	BOT	August 30, 2017	30	30,000	10,000 <sup>(15)</sup> 20,000 <sup>(15)</sup> 25,000 <sup>(15)</sup> 30,000 <sup>(15)</sup>	1.99	BOD5≤6 mg/L, COD≤30 mg/L, SS≤10 mg/L, TN≤15 mg/L, NH3-N≤1.5 mg/L, TP≤0.3 mg/L, PH: 6-9, Class I Standard A for other indicators	October 2017
20.	Dezhou	Ling County Waste Water Treatment Project (Plant 1) (陵縣污水處理項目(一廠))	In operation	Everbright Water (Lingxian) Limited (光大水務(陵縣)有限公司)	100	June 1, 2010	TOT	May 10, 2010	30	30,000	12,500 <sup>(16)</sup> 20,000 <sup>(16)</sup> 25,000 <sup>(16)</sup> 30,000 <sup>(16)</sup>	1.08*	Class I Standard B	May 2010
21.	Dezhou	Ling County Waste Water Treatment Project (Plant 2) (陵縣污水處理項目(二廠))	In operation	Everbright Water (Lingxian) Limited (光大水務(陵縣)有限公司)	100	June 16, 2010	BOT	September 23, 2009	30	30,000	15,000 <sup>(17)</sup> 20,000 <sup>(17)</sup> 25,000 <sup>(17)</sup> 30,000 <sup>(17)</sup>	1.23	Class I Standard A	December 2009
22.	Dezhou	Ling County Waste Water Treatment Project (Plant 1) Upgrading (陵縣污水處理項目(一廠)提標改造)	In operation	Everbright Water (Lingxian) Limited (光大水務(陵縣)有限公司)	100	June 1, 2014	BOT	October 28, 2013	26	N/A	30,000	1.27	Class I Standard A	December 2013
23.	Dezhou	Ling County Waste Water Treatment Project (Plant 2) Upgrading (陵縣污水處理項目(二廠)提標改造)	In operation	Everbright Water (Lingxian) Limited (光大水務(陵縣)有限公司)	100	September 1, 2018	BOT	January 17, 2018	22	N/A	30,000	1.89	Class I Standard A	April 2018
24.	Dezhou	Dezhou Nanyunhe Waste Water Treatment Project Phase I (德州南運河污水處理項目一期)	In operation	Everbright Water (Dezhou) Limited (光大水務(德州)有限公司)	100	September 1, 2013	BOT	September 17, 2011	25	75,000	70,000	0.85	Class I Standard A	April 2012

(14) After completion of the construction of Phase II, the guaranteed minimum treatment volume stipulated for this project is the total guaranteed minimum treatment volume of Phase I and Phase II. The guaranteed minimum treatment volume (tonnes/day) will be 150,000 from the first year of commercial operation and shall increase to 170,000 for the second year and 190,000 for the third year and thereafter.

(15) The guaranteed minimum treatment volume (tonnes/day) will be 10,000 for 2019, 25,000 for 2020-2025 and 30,000 for 2026 and thereafter.

(16) The guaranteed minimum treatment volume (tonnes/day) will be 12,500 from the first year of commercial operation and shall increase to 20,000 for the second year, 25,000 for the third year and 30,000 for the fourth year and thereafter.

(17) The guaranteed minimum treatment volume (tonnes/day) will be 15,000 from the first year of commercial operation and shall increase to 20,000 for the second year, 25,000 for the third year and 30,000 for the fourth year and thereafter.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
25.	Rizhao	Ju County Chengbei Waste Water Treatment Project (昌樂城北污水處理項目) (treats industrial wastewater)	In operation	Everbright Water (Juxian) Limited (光大水務(昌樂)有限公司)	100	July 1, 2015	TOT	May 12, 2015	29	40,000	24,000 <sup>(18)</sup> 28,000 <sup>(18)</sup> 32,000 <sup>(18)</sup> 36,000 <sup>(18)</sup>	1.39*	Class I Standard A	August 2015
26.	Rizhao	Ju County Shudong Waste Water Treatment Project (昌樂流東污水處理項目)	In operation	Everbright Water (Juxian) Limited (光大水務(昌樂)有限公司)	100	June 12, 2017	BOT	July 14, 2016	30	20,000	8,000 <sup>(19)</sup> 12,000 <sup>(19)</sup> 16,000 <sup>(19)</sup> 20,000 <sup>(19)</sup>	1.297	Class I Standard A	September 2016
27.	Rizhao	Ju County Chengbei Waste Water Treatment Project Upgrading (昌樂城北污水處理項目提標改造) (treats industrial wastewater) <sup>(20)</sup>	Construction completed (in trial operation)	Everbright Water (Juxian) Limited (光大水務(昌樂)有限公司)	100	March 7, 2018	BOT	August 8, 2017	26	N/A	Same as the guaranteed minimum treatment volume prior to the upgrade	3.68 <sup>(21)</sup>	Class I Standard A	September 2017
28.	Ji'nan	Zhangqiu Waste Water Treatment Project (Plant 1) (章丘污水處理廠項目 (第一廠))	In operation	Everbright Water (Zhangqiu) Operating Limited (光大水務(章丘)運營有限公司)	95	May 1, 2016	TOT	March 1, 2016	30	50,000	70,000 <sup>(22)</sup> 80,000 <sup>(22)</sup> 90,000 <sup>(22)</sup>	1.67	Class I Standard A	May 2016
29.	Ji'nan	Zhangqiu Waste Water Treatment Project (Plant 2) (章丘污水處理廠項目 (第二廠))	In operation	Everbright Water (Zhangqiu) Operating Limited (光大水務(章丘)運營有限公司)	95	May 1, 2016	TOT	March 1, 2016	30	40,000	70,000 <sup>(22)</sup> 80,000 <sup>(22)</sup> 90,000 <sup>(22)</sup>	1.67	Class I Standard A	May 2016
30.	Ji'nan	Zhangqiu Waste Water Treatment Project (Plant 3) (章丘污水處理廠項目 (第三廠))	In operation	Everbright Water (Zhangqiu) Limited (光大水務(章丘)有限公司)	100	August 9, 2014	BOT	August 1, 2013	30	30,000	10,000 <sup>(23)</sup> 20,000 <sup>(23)</sup> 30,000 <sup>(23)</sup>	1.59	Class I Standard A	August 2013

(18) The guaranteed minimum treatment volume (tonnes/day) will be 24,000 from the first year of commercial operation and shall increase to 28,000 for the second year, 32,000 for the third year and 36,000 for the fourth year and thereafter.

(19) The guaranteed minimum treatment volume (tonnes/day) will be 8,000 from the first year of commercial operation and shall increase to 12,000 for the second year, 16,000 for the third year and 20,000 for the fourth year and thereafter.

(20) This project is still at trial operation and we are currently waiting approval from the relevant government authority to commence commercial operation.

(21) The tariff will be RMB3.68/ton from the commencement of commercial operation until confirmed by the parties. The parties shall confirm the tariff within 30 days after the third month of commercial operation.

(22) The guaranteed minimum treatment volume stipulated for this project is the total guaranteed minimum treatment volume of Plant 1 and Plant 2. The total guaranteed minimum treatment volume (tonnes/day) will be 70,000 from the first year of commercial operation and shall increase to 80,000 for the second year and 90,000 for the third year and thereafter.

(23) The guaranteed minimum treatment volume (tonnes/day) will be 10,000 from the first year of commercial operation and shall increase to 20,000 for the second year and 30,000 for the third year and thereafter.



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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Type of Commercial Operation	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
								Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
31.	Binzhou	Binzhou Development Zone Waste Water Treatment Project Phase I (濱州開發區污水處理項目一期)	In operation	Everbright Water (Binzhou) Limited (光大水務(濱州)有限公司) (formerly known as Binzhou Jin Di Co., Ltd (濱州金迪水務有限公司))	100	BOT	November 19, 2007	40,000	28,000 <sup>(24)</sup> 35,000 <sup>(24)</sup> 40,000 <sup>(24)</sup>	1.09 <sup>(25)</sup>	Class I Standard B	December 2014	
32.	Binzhou	Binzhou Development Zone Waste Water Treatment Project Phase I Upgrading (濱州開發區污水處理項目一期提標改造)	Construction Completed (in trial operation) <sup>(26)</sup>	Everbright Water (Binzhou) Limited (光大水務(濱州)有限公司) (formerly known as Binzhou Jin Di Co., Ltd (濱州金迪水務有限公司))	100	BOT	August 12, 2017	N/A	N/A	1.49	Class I Standard A	August 2017	
<b>Jiangsu Region</b>													
33.	Wuxi	Jiangyin Waste Water Treatment Project (江陰污水處理項目) <sup>(27)</sup>	In operation	Everbright Water (Jiangyin) Limited (光大水務(江陰)有限公司)	70	TOT	November 16, 2007	190,000	161,500 <sup>(28)</sup>	1.75 <sup>(29)</sup>	Class I Standard A	January 2008	
34.	Wuxi	Jiangyin Waste Water Treatment Project (Upgrading) (江陰污水處理項目(升級改造)) <sup>(30)</sup>	In operation	Everbright Water (Jiangyin) Limited (光大水務(江陰)有限公司)	70	BOT	November 16, 2007	N/A	N/A	1.8855	DB32/1072-2007	February 2008	
35.	Xuzhou	Xinyi City Waste Water Treatment Project (新沂城市污水處理廠項目) <sup>(31)</sup>	In operation	Everbright Water Operating (Xinyi) Limited (光大水務運營(新沂)有限公司)	51	TOT	July 7, 2016	70,000	49,000	1.24*	Class I Standard A	July 2016	
(24)	The guaranteed minimum treatment volume (tonnes/day) will be 28,000 from the first year of commercial operation and shall increase to 35,000 for the second year and 40,000 for the third year and thereafter.												
(25)	The tariff was RMB0.94/ton from January 1, 2012, RMB1.05/ton from January 1, 2014 and RMB1.09/ton from January 1, 2015.												
(26)	This project is still at trial operation and we are currently waiting approval from the relevant government authority to commence commercial operation.												
(27)	This project also includes Chengxi Plant Phase I (澄西污水處理廠一期工程), Binjiang Plant Phase I (濱江污水處理廠二期工程), Binjiang Plant Phase II (濱江污水處理廠二期工程), Shizhuang Plant Phase I (石莊污水處理廠一期工程) and Chengxi Plant Phase II (澄西污水處理廠二期工程).												
(28)	The guaranteed minimum treatment volume (tonnes/day) was 86,300 from the first year of project operation, 135,300 for the second year, 140,250 for the third year, 159,000 for the fourth year and 161,500 for the fifth year and thereafter.												
(29)	The tariff was RMB1.661/ton prior to January 1, 2013.												
(30)	This project also includes (i) sludge treatment and disposal and (ii) Chengxi Plant upgrading (澄西污水處理廠升級改造項目), Chengxi Plant Phase I Expansion (澄西污水處理廠擴建一期工程), Binjiang Plant upgrading (濱江污水處理廠一、二期改造工程和三期工程) and Shizhuang Plant upgrading (石莊污水處理廠升級改造項目).												
(31)	This project also includes Xinyi Plant Phase I (新沂市城市污水處理廠一期) and Xinyi Plant Phase II (新沂市城市污水處理廠二期).												

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
36.	Xuzhou	Xinyi Economic Development Zone Waste Water Treatment Project Phase I (新沂經濟開發區污水處理項目一期) (treats industrial wastewater)	In operation	Everbright Water Operating (Xinyi) Limited (光大水務運營(新沂)有限公司)	51	July 7, 2016	TOT	July 7, 2016	25	10,000	5,000	7.97*	Class I Standard A	July 2016
37.	Xuzhou	Xinyi City Waste Water Treatment Project Upgrading (新沂城市污水處理項目提標改造)	In operation	Everbright Water Operating (Xinyi) Limited (光大水務運營(新沂)有限公司)	51	May 10, 2017	BOT	July 7, 2016	25	N/A	N/A	1.24	Class I Standard A	August 2016
38.	Xuzhou	Xinyi Economic Development Zone Waste Water Treatment Project Phase II (新沂經濟開發區污水處理項目二期) (treats industrial wastewater)	In operation	Everbright Water Operating (Xinyi) Limited (光大水務運營(新沂)有限公司)	51	August 31, 2017	BOT	July 7, 2016	25	10,000	5,000	7.97	Class I Standard A	September 2016
39.	Suzhou	Kunshan Development Zone Waste Water Treatment Project Phase I (昆山開發區污水處理項目一期) <sup>(32)</sup>	In operation	Everbright Water (Kunshan) Limited (光大水務(昆山)有限公司) (formerly known as Kunshan Gang Dong Wastewater Treatment Co., Ltd (昆山港東污水處理有限公司))	100	January 16, 2007	BOT	November 11, 2004	25	25,000	50,000 <sup>(33)</sup>	1.2016	Class I Standard A	December 2014
40.	Suzhou	Kunshan Development Zone Waste Water Treatment Project Phase II (昆山開發區污水處理項目二期) <sup>(34)</sup>	In operation	Everbright Water (Kunshan) Limited (光大水務(昆山)有限公司) (formerly known as Kunshan Gang Dong Wastewater Treatment Co., Ltd (昆山港東污水處理有限公司))	100	September 28, 2008	BOT	November 11, 2004	21	25,000	50,000 <sup>(33)</sup>	1.2016	Class I Standard A	December 2014

(32) This project also includes Phase I upgrading (一期提標改造工程項目) which was completed in 2011.

(33) Prior to September 28, 2010, the guaranteed minimum treatment volume was 47,500 tonnes/day.

(34) This project also includes Phase II upgrading (二期提標改造工程項目) which was completed in 2011.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
41.	Yangzhou	Yangzhou Jiangdu Development Zone Waste Water Treatment Project Phase I (揚州江都開發區污水處理項目一期)	In operation	Everbright Water (Yangzhou) Limited (光大水務(揚州)有限公司) (formerly known as Yangzhou Hankore Water Development Co., Ltd (揚州漢科水處理發展有限公司))	100	September 1, 2007	BOT	November 30, 2004	25	12,500	8,750 <sup>(35)</sup> 10,000 <sup>(35)</sup> 11,250 <sup>(35)</sup> 12,500 <sup>(35)</sup>	1.81 <sup>(36)</sup>	Class I Standard A	December 2014
42.	Yangzhou	Yangzhou Jiangdu Waste Water Treatment Project Phase II and Upgrading (揚州江都開發區污水處理項目二期及提標)	In operation	Everbright Water (Yangzhou) Limited (光大水務(揚州)有限公司) (formerly known as Yangzhou Hankore Water Development Co., Ltd (揚州漢科水處理發展有限公司))	100	August 1, 2015	BOT	November 16, 2012	25	12,500	8,750 <sup>(35)</sup> 10,000 <sup>(35)</sup> 11,250 <sup>(35)</sup> 12,500 <sup>(35)</sup>	1.81 <sup>(36)</sup>	Class I Standard A	December 2014
43.	Lianyungang	Lianyungang Dapu Waste Water Treatment Project (連雲港大浦污水處理項目)	In operation	Everbright Water (Lianyungang) Limited (光大水務(連雲港)有限公司) (formerly known as Lianyungang King Fortune Water Co., Ltd (連雲港金兆水務有限公司))	100	January 1, 2006	TOT	July 25, 2005	25	100,000	80,000	0.87	Class II	December 2014
44.	Lianyungang	Lianyungang Xugou Waste Water Treatment Project Phase I (連雲港嶺溝污水處理項目一期)	In operation	Everbright Water (Lianyungang) Limited (光大水務(連雲港)有限公司) (formerly known as Lianyungang King Fortune Water Co., Ltd (連雲港金兆水務有限公司))	100	September 1, 2009	BOT	July 25, 2005	25	40,000	32,000	0.87	Class II	December 2014
45.	Nanjing	Nanjing Pukou Waste Water Treatment Project Phase I (南京浦口壘球江污水處理廠項目一期)	In operation	Everbright Water (Nanjing) Limited (光大水務(南京)有限公司)	100	January 29, 2010	BOT	April 18, 2006	25	40,000	40,000	0.886*	Class I Standard A	December 2014

(35) The guaranteed minimum treatment volume stipulated for this project is the total guaranteed minimum treatment volume of Phase I and Phase II. The total guaranteed minimum treatment volume will be 70% of the designed capacity from August 1, 2015 to July 31, 2016, and shall increase to 80% from August 1, 2016 to July 31, 2017, 90% from August 1, 2017 to July 31, 2018 and 100% from August 1, 2018 and thereafter.

(36) Including sludge drying disposal fee of RMB0.15/ton.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Commencement Date of Consolidation with our Group's Financial Statements	
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		Water Quality Required
46.	Nanjing	Nanjing Pukou Waste Water Treatment Project Phase II and Upgrading (南京浦口污水處理項目二期及整體提標)	In operation	Everbright Water (Nanjing) Limited (光大水務(南京)有限公司)	100	January 20, 2016	BOT	August 1, 2013	16	40,000	40,000	1.385	Class I Standard A	December 2014
47.	Suzhou	Suzhou Wuzhong Chengnan Waste Water Treatment Project Phase I Stage I (蘇州吳中城南污水處理項目一期一步)	In operation	Everbright Water (Suzhou) Limited (光大水務(蘇州)有限公司) (formerly known as Suzhou Jin Di Water Co., Ltd (蘇州金迪水務有限公司))	100	January 1, 2009	BOT	July 10, 2006	27	75,000	75,000	2.93*	Class I Standard A	December 2014
48.	Suzhou	Suzhou Wuzhong Chengnan Waste Water Treatment Project Phase I Stage II and Upgrading (蘇州吳中城南污水處理項目一期二步及提標改造)	In operation	Everbright Water (Suzhou) Limited (光大水務(蘇州)有限公司) (formerly known as Suzhou Jin Di Water Co., Ltd (蘇州金迪水務有限公司))	100	Phase I Stage II: July 1, 2015 Upgrading: July 1, 2016	BOT	November 28, 2014	18	75,000	150,000	2.675	Class I Standard A	December 2014
49.	Nanjing	Nanjing Liuhe Waste Water Treatment Project Phase I (南京六合污水處理項目一期)	In operation	Everbright Water Purification Nanjing Limited (光大水質淨化南京有限公司) (formerly known as Nanjing Jin Huan Water Development Co., Ltd (南京金環水務發展有限公司))	100	June 1, 2011	BOT	December 8, 2006	30	20,000	20,000	0.92*	Class I Standard A	December 2014
50.	Nanjing	Nanjing Liuhe Waste Water Treatment Project Phase II and Upgrading (南京六合污水處理項目二期二階段及提標)	In operation	Everbright Water Purification Nanjing Limited (光大水質淨化南京有限公司) (formerly known as Nanjing Jin Huan Water Development Co., Ltd (南京金環水務發展有限公司))	100	October 1, 2015	BOT	April 26, 2013	24	20,000	28,000 <sup>(37)</sup> 32,000 <sup>(37)</sup> 40,000 <sup>(37)</sup>	1.44	Class I Standard A	December 2014

(37) After completion of the construction of Phase I Stage II, the guaranteed minimum treatment volume (tonnes/day) will be 28,000 from the first year of commercial operation and shall increase to 32,000 for the second year and 40,000 for the third year and thereafter.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Type of Project Model	Date of Signing of Service Concession Agreement	Granted Concession Period (Year)	Service Concession Arrangement			Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
51.	Nanjing	Nanjing Pukou Industrial Waste Water Treatment Project Phase I (南京浦口區工業污水處理項目一期) (treats industrial wastewater)	Construction completed (in trial operation) <sup>(38)</sup>	Everbright Industrial Waste Water Treatment Nanjing Limited (光大工業廢水處理南京有限公司)	60	BOT	August 23, 2016	20	10,000	5,000 <sup>(39)</sup>	7.91	Class I Standard A	September 2016
<b>Henan Region</b>													
52.	Sanmenxia	Sanmenxia Waste Water Treatment Project Phase I (三門峽污水處理項目一期)	In operation	Sanmenxia Everbright Water Limited (三門峽光大水務有限公司) (formerly known as Sanmenxia HanKore Co., Ltd. (三門峽漢科水務有限公司))	100	BOT	May 10, 2011	30	30,000	24,000 <sup>(40)</sup>	1.03*	Class I Standard B	December 2014
53.	Sanmenxia	Sanmenxia Waste Water Treatment Project Phase II Upgrading (三門峽污水處理項目二期提標改造)	In operation	Sanmenxia Everbright Water Limited (三門峽光大水務有限公司) (formerly known as Sanmenxia HanKore Co., Ltd. (三門峽漢科水務有限公司))	100	BOT	July 27, 2017	24	N/A	24,000	1.40	Class I Standard A	December 2015

(38) This project is still at trial operation and we are currently waiting approval from the relevant government authority to commence commercial operation.

(39) The guaranteed minimum treatment volume (tonnes/day) will be 5,000 until December 31, 2020, and 10,000 from January 1, 2021 onwards.

(40) Prior to February 1, 2017, the guaranteed minimum treatment volume was 18,000 tonnes/day.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Commencement Date of Consolidation with our Group's Financial Statements	
									Granted Concession Period (Year)	Designated Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		Water Quality Required
<b>Beijing Region</b>														
54.	Beijing	Daxing Tiantanghe Waste Water Treatment Project Phase I (大興區天堂河污水處理項目一期)	In operation	Everbright Water (Beijing) Limited (光大水務(北京)有限公司) (formerly known as Beijing Bio-Treat Water Co., Ltd (北京金迪水務有限公司))	100	August 1, 2010	BOT	September 8, 2006	29	40,000	N/A	2.73 <sup>(41)*</sup>	Standard B <sup>(42)</sup> (DB11/890-2012)	December 2014
55.	Beijing	Daxing Tiantanghe Waste Water Treatment Project Phase II and Upgrading (大興區天堂河污水處理項目二期及提標改造)	In operation	Everbright Water (Beijing) Limited (光大水務(北京)有限公司) (formerly known as Beijing Bio-Treat Water Co., Ltd (北京金迪水務有限公司))	100	January 1, 2017	BOT	May 11, 2015	20	40,000	55,000 <sup>(43)</sup>	2.73	Standard B <sup>(42)</sup> (DB11/890-2012)	December 2014
<b>Shaanxi Region</b>														
56.	Xianyang	Xianyang Waste Water Treatment Project Phase I (咸陽東郊污水處理項目一期)	In operation	Everbright Water (Xianyang) Limited (光大水務(咸陽)有限公司) (formerly known as Xianyang Bai Sheng Shui Purifying Co., Ltd (咸陽百盛水淨化有限公司))	100	October 28, 2006	BOT	March 29, 2003	25	100,000	N/A	0.70*	Class I Standard B	December 2014
57.	Xianyang	Xianyang Waste Water Treatment Project Phase II (咸陽東郊污水處理項目二期)	In operation	Everbright Water (Xianyang) Limited (光大水務(咸陽)有限公司) (formerly known as Xianyang Bai Sheng Shui Purifying Co., Ltd (咸陽百盛水淨化有限公司))	100	December 16, 2014	BOT	November 2, 2012	30	100,000	N/A	1.01	Class I Standard A	December 2014
58.	Xianyang	Xianyang Waste Water Treatment Project Phase I Upgrading (咸陽東郊污水處理項目一期提標改造)	In operation	Everbright Water (Xianyang) Limited (光大水務(咸陽)有限公司) (formerly known as Xianyang Bai Sheng Shui Purifying Co., Ltd (咸陽百盛水淨化有限公司))	100	April 15, 2015	BOT	June 6, 2015	16	N/A	N/A	1.069	Class I Standard A	December 2014

(41) The tariff was RMB1.47/ton prior to November 15, 2016.

(42) Prior to November 15, 2016, Class I Standard B of country standard (GB18918-2002) was implemented.

(43) The guaranteed minimum treatment volume stipulated for the service concession arrangement of this project is the total guaranteed minimum treatment volume of Phase I and Phase II from January 1, 2017 onwards. Prior to January 1, 2017, the guaranteed minimum treatment volume was 30,000 tonnes/day. The guaranteed minimum treatment volume (tonnes/day) will be 55,000 from 2017 to 2019, 70,000 from 2020 to 2022 and 80,000 from 2023 onwards.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Granted Concession Period (Year)	Service Concession Arrangement			Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
										Designed Capacity (tonnes/day)	Guaranteed Treatment Volume (tonnes/day)	Minimum Tariff (RMB/tonne, including VAT)		
<b>Liaoning Region</b>														
59.	Dalian	Dalian Quanshui Waste Water Treatment Project (大連泉水污水處理項目)	In operation	Everbright Water (Dalian) Co., Ltd. (先大水务(大連)有限公司) Dalian Dongda Water Co., Ltd. (大連東達水务有限公司)	100	September 28, 2005	BOT	August 6, 2004	20	35,000	N/A	0.785*	Class I Standard B	November 2015
60.	Dalian	Dalian Quanshui Waste Water Treatment Project Upgrading (大連泉水污水處理項目提標改造)	Construction completed (in trial operation) <sup>(44)</sup>	Everbright Water (Dalian) Co., Ltd. (先大水务(大連)有限公司) Dalian Dongda Water Co., Ltd. (大連東達水务有限公司)	100	January 1, 2018	BOT	July 11, 2016	8	N/A	N/A	1.078	Class I Standard A	June 2016
61.	Dalian	Dalian Malanhe Waste Water Treatment Project Phase II (大連市馬欄河污水處理項目二期)	In operation	Dalian EW Malanhe Water Co., Ltd. (大連光水馬欄河水务有限公司) (formerly known as Dalian Dongda Environment Group Malanhe Waste Water Treatment Co., Ltd. (大連東達環境集團馬欄河污水處理有限公司))	100	December 17, 2009	BOT	February 18, 2010	20	80,000	N/A	0.785	Class I Standard A	November 2015
62.	Dalian	Dalian Chunliuhe Waste Water Treatment Project Phase II (大連市春柳河污水處理項目二期)	In operation	Dalian EW Chunliuhe Water Co., Ltd. (大連光水春柳河水务有限公司) (formerly known as Dalian Dongda Environment Group Chunliuhe Waste Water Treatment Co., Ltd. (大連東達環境集團春柳河污水處理有限公司))	100	September 23, 2009	BOT	September 9, 2009	20	120,000	N/A	0.604*	Class I Standard B	November 2015
63.	Dalian	Dalian Chunliuhe Waste Water Treatment Project Phase II Upgrading (大連市春柳河污水處理項目二期提標改造)	Construction completed (in trial operation) <sup>(44)</sup>	Dalian EW Chunliuhe Water Co., Ltd. (大連光水春柳河水务有限公司) (formerly known as Dalian Dongda Environment Group Chunliuhe Waste Water Treatment Co., Ltd. (大連東達環境集團春柳河污水處理有限公司))	100	January 1, 2018	BOT	July 1, 2016	11	N/A	N/A	0.887	Class I Standard A	June 2016
64.	Dalian	Dalian Siergou Waste Water Treatment Project (大連寺兒溝污水處理項目)	In operation	Dalian Siergou Water Co., Ltd. (大連寺兒溝水务有限公司)	100	December 19, 2013	BOT	July 22, 2009	20	100,000	N/A	0.948	Class I Standard A	November 2015

(44) This project is still at trial operation and we are currently waiting approval from the relevant government authority to commence commercial operation.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
65.	Dalian	Lvshun Bailanzi Waste Water Treatment Project Phase I (旅順柏嵐子污水處理項目一期)	In operation	Dalian Lvshun City Waste Water Treatment Co., Ltd. (大連旅順城市污水處理有限公司)	100	November 1, 2003 (initial commencement)	TOT	September 29, 2003	50	30,000 <sup>(45)</sup>	N/A	0.432 <sup>(46)</sup>	Class II Standard	November 2015
66.	Dalian	Lvshun Bailanzi Waste Water Treatment Project Phase II (旅順柏嵐子污水處理項目二期)	In operation	Dalian Lvshun City Waste Water Treatment Co., Ltd. (大連旅順城市污水處理有限公司)	100	July 5, 2008	BOT	April 24, 2006	20	30,000 <sup>(47)</sup>	N/A	0.58*	Class I Standard B	November 2015
67.	Dalian	Lvshun Bailanzi Waste Water Treatment Project Upgrading (旅順柏嵐子污水處理項目擴建改造)	Construction completed (in trial operation) <sup>(48)</sup>	Dalian Lvshun City Waste Water Treatment Co., Ltd. (大連旅順城市污水處理有限公司)	100	January 12, 2018	BOT	March 20, 2017	36	N/A	N/A	1.05	Class I Standard A	August 2016
68.	Dalian	Lvshun Sanjianpu Waste Water Treatment Project (旅順三灘堡污水處理項目)	In operation	Dalian Lvshun Sanjianpu Waste Water Treatment Co., Ltd. (大連旅順三灘堡污水處理有限公司)	100	July 2, 2012	BOT	October 19, 2009	20	10,000	10,000	1.32	Class I Standard A	November 2015
69.	Dalian	Pulandian Waste Water Treatment Project Phase I (普蘭店市污水處理項目一期)	In operation	Dalian Pulandian Area EW Water Co., Ltd. (大連市普蘭店區光水水務有限公司) (formerly known as Dalian Dongda Environment Group Pulandian Water Co., Ltd. (大連東達環境集團普蘭店水務有限公司))	100	September 6, 2007	BOT	June 2006	20	20,000	20,000	0.785	Class I Standard B	November 2015
70.	Dalian	Dalian Liangjiadian Waste Water Treatment Project Phase I (大連亮甲店污水處理項目一期)	Construction completed (not in operation) <sup>(49)</sup>	Dalian Bonded Area EW Water Co., Ltd. (大連保稅區光水水務有限公司) (formerly known as Dalian Bonded Area Dongda Waste Water Treatment Co., Ltd. (大連保稅區東達污水處理有限公司))	100	Pending <sup>(49)</sup>	BOT	June 12, 2012	20	20,000	10,000 <sup>(50)</sup> 15,000 <sup>(50)</sup> 20,000 <sup>(50)</sup>	1.53	Class I Standard A	November 2015

(45) The designed capacity stipulated for the service concession arrangement of this project is the total guaranteed minimum treatment volume of Phase I and Phase II.

(46) It is the average water price for 20 years agreed for the agreement.

(47) The designed capacity stipulated for the service concession arrangement of this project is the total guaranteed minimum treatment volume of Phase I and Phase II.

(48) This project is still at trial operation and we are currently waiting approval from the relevant government authority to commence commercial operation.

(49) Commercial operation will be commenced upon the completion of the assets transfer formalities. As at the Latest Practicable Date, the assets transfer formalities were yet to be completed.

(50) The guaranteed minimum treatment volume (tonnes/day) will be 10,000 from the first year of commercial operation and shall increase to 15,000 for the second year and 20,000 for the third year and thereafter.



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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing of Service Concession Agreement	Granted Concession Period (Year)	Service Concession Arrangement			Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
										Designated Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
71.	Dalian	Zhuanghe Waste Water Treatment Project Phase I (莊河市污水處理項目一期)	In operation	Dalian Zhuanghe EW Water Co., Ltd. (大連莊河光水水務有限公司) (formerly known as Dongda Group Zhuanghe Water Co., Ltd. (東達集團莊河水有限公司))	100	October 30, 2009	BOT	March 26, 2008	20	30,000	30,000	Class I Standard B	November 2015	
72.	Panjin	Panjin 1st Waste Water Treatment Project (錦州市第一污水處理項目)	In operation	Panjin City Waste Water Treatment Co., Ltd. (錦州市污水處理有限公司)	100	June 1, 2004 (initial commencement)	TOT	January 1, 2004	30	100,000	70,000	COD≤120 mg/L, Class II for other indicators	November 2015	
73.	Panjin	Panjin 1st Waste Water Treatment Project Upgrading (錦州市第一污水處理項目提標改造)	In operation	Panjin City Waste Water Treatment Co., Ltd. (錦州市污水處理有限公司)	100	January 1, 2014 (initial commencement)	TOT	May 28, 2015	19	N/A	N/A	Class I Standard A	November 2015	
74.	Anshan	Anshan West 2nd Waste Water Treatment Project (鞍山市西部第二污水處理項目)	In operation	Anshan City Water Operating Co., Ltd. (鞍山市水務運營有限公司)	100	June 1, 2006 (initial commencement)	TOT	December 8, 2005	30	100,000	100,000	Class I Standard B	November 2015	
75.	Shenyang	Shenyang Hunnan New District Waste Water Treatment Project (瀋陽區南新區污水處理項目)	In operation	Shenyang Hunnan EW Water Co., Ltd. (瀋陽區南光水務有限公司) (formerly known as Dongda Group (Shenyang) Hunnan Water Co., Ltd. (東達集團(瀋陽)遼南水務有限公司))	100	July 1, 2010 (initial commencement)	TOT	July 24, 2008	30	40,000	N/A	Class II	November 2015	
76.	Dalian	Pulandian Waste Water Treatment Project Phase I Expansion (普蘭店污水處理項目一期擴建)	In operation	Dalian Pulandian Area Trexi EW Waste Water Treatment Co., Ltd. (大連普蘭店區德西光污水處理有限公司) (formerly known as Dalian Puwan New District Dongda Waste Water Treatment Co., Ltd. (大連普蘭店新區東達污水處理有限公司))	100	December 30, 2016	BOT	July 26, 2010	20	20,000	12,000 <sup>(5)</sup> 16,000 <sup>(5)</sup> 20,000 <sup>(5)</sup>	Class I Standard B	November 2015	
77.	Dandong	Dandong Waste Water Treatment Project (丹東市污水處理項目)	In operation	Dandong Dongda Waste Water Treatment Co., Ltd. (丹東東達污水處理有限公司)	100	November 1, 2010	BOT	April 7, 2009	30	100,000	100,000	Class I Standard A	November 2015	

(5) The guaranteed minimum treatment volume (tonnes/day) will be 12,000 from the first year of commercial operation and shall increase to 16,000 for the second and third year and 20,000 for the fourth year and thereafter.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project Model	Date of Signing Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff (RMB/tonne, including VAT)		
<b>Inner Mongolia Region</b>														
78.	Tongliao	Inner Mongolia Tongliao Development Zone Waste Water Treatment Project (內蒙古通遼開發區污水處理項目)	In operation	Tongliao City Northern Waste Water Treatment Co., Ltd (通遼市北部污水處理有限公司) (formerly known as Dongda Group Tongliao Water Co., Ltd. (東達集團通遼水務有限公司))	100	March 30, 2009 (initial commencement)	TOT	July 2, 2007	30	50,000	30,000	0.8	Class I Standard B	November 2015
<b>Hubei Region</b>														
79.	Suizhou	Suizhou Xihe County Waste Water Treatment Plant and Pipeline Network Project (隨州新河鎮污水廠及配套管網項目) (treats industrial water) <sup>(52)</sup>	In operation	Everbright Water Suizhou Water Environment Management Limited (光大水務隨州水環境治理有限公司)	78.4	March 1, 2019	BOT	March 28, 2017	25	10,000 <sup>(53)</sup>	6,000	7.63	Class I Standard A	June 2017
<b>Water Environment Treatment</b>														
<b>Jiangsu Region</b>														
80.	Nanjing	Nanjing Municipal Water PPP Project (南京溧水市政工程 PPP 項目)	In operation	Everbright River Basin Remediation (Nanjing) Limited (光大溧水環境治理有限公司)	100	October 7, 2018	BOT	October 20, 2016	10	N/A	N/A	N/A	Eliminate the black and odorous	December 2016
<b>Others</b>														
<b>Shandong Region</b>														
81.	Zibo	Zibo Reusable Water Project (濰博中水回用項目)	In operation	Everbright Water (Zibo) Limited (光大水務(濟南)有限公司)	100	September 9, 2011	Self-operation	February 3, 2010	N/A	9,600	N/A	China Huadian (華電) CHALCO (中鋁); Hunan Chemicals (華南化工); 6	Hunan Chemicals, China Huadian	March 2010
82.	Ji'nan	Jinan Licheng Reusable Water Project (濟南歷城中水項目)	In operation	Everbright Water (Ji'nan Licheng) Limited (光大水務(濟南歷城)有限公司)	100	September 21, 2011	Self-operation	May 19, 2010	26	42,000	16,400	1.46 <sup>(54)</sup>	Class I Standard A	July 2011

(52) This project includes a wastewater treatment facility with designed capacity of 10,000 tonnes/day.

(53) Refers to the treatment capacity of a wastewater treatment plant in the wastewater treatment facility of this project.

(54) The tariff was RMB1.30/ton prior to July 1, 2015.

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No.	Location	Project and Type	Progress	Project Company	Our Group's Effective Interest (%)	Commencement of Commercial Operation	Type of Project	Date of Signing of Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Commencement Date of Consolidation with our Group's Financial Statements
									Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Treatment Volume (tonnes/day)	Minimum Treatment Volume (including VAT)		
83.	Zibo	Zibo Waste Water Source Heat Pump Project Phase I (淄博污水热源项目一期)	In operation	Zibo Everbright Water Energy Development Company Limited (淄博光大水务能源开发有限公司)	100	November 11, 2011	BOT	November 29, 2009	N/A	N/A	N/A	Price for residents: 22/square meter (heating) Price for non-residents: 36/square meter (heating) 39/square meter (cooling)	N/A	June 2009
84.	Zibo	Zibo Ceramic Technology Development Park Heat Pump Project (淄博陶瓷园热泵项目)	In operation	Zibo Everbright Water Energy Development Company Limited (淄博光大水务能源开发有限公司)	100	November 15, 2013	BOT	January 18, 2011	N/A	N/A	N/A	Price for residents: 22/square meter (heating) Price for non-residents: 36/square meter (heating) 39/square meter (air-conditioning)	N/A	April 2011
<b>Jiangsu Region</b>														
85.	Jiangyin	Jiangyin Reusable Water Project (江陰中水項目)	In operation	Everbright Reusable Water (Jiangyin) Limited (光大中水利用(江陰)有限公司)	100	January 1, 2013	BOO	November 16, 2010	25	10,000	N/A	6.6	Conductivity $\leq 200\mu\text{s/cm}$	July 2011
86.	Nanjing	Nanjing Pukou Reusable Water Project Phase I (南京浦口中水一期)	In operation	Everbright Reusable Water (Nanjing) Limited (光大中水利用(南京)有限公司)	100	April 29, 2017	BOT	April 22, 2016	15.5	20,000	12,000 <sup>(55)</sup> 14,000 <sup>(55)</sup> 16,000 <sup>(55)</sup> 18,000 <sup>(55)</sup> 20,000 <sup>(55)</sup>	1.42	Class I Standard A	May 2016

(55) The guaranteed minimum treatment volume will be 70% of the designed capacity from the first year of commercial operation and shall increase to 80% of the designed capacity for the second year and 85% of the designed capacity for the third year, 90% of the designed capacity for the fourth year and 100% of the designed capacity for the fifth year and thereafter thereafter.

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## Projects Under Construction

The following projects are our significant service concession arrangement projects which were under construction as at the Latest Practicable Date.

No.	Location	Project and Type	Progress/ Phase	Project Company	Our Group's Effective Interest (%)	Construction Commencement Date	Expected Completion Date	Type of Project Service Concession Model	Date of Signing Service Concession Agreement	Granted Concession Period (Year)	Service Concession Arrangement			Water Quality Required	Total Investment (RMB in million)	Total Investment Incurred as at December 31, 2018 (RMB in million)	Estimated Investment Payback Period <sup>(a)</sup> (Year)	Commencement Consolidation with our Group's Financial Statements	
											Designated Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff / Expected Tariff (RMB/tonne, including VAT)						
<b>Wastewater Treatment (unless otherwise indicated, all the following projects treat municipal wastewater)</b>																			
<b>Shandong Region</b>																			
87.	Binzhou	Binzhou Development Zone Waste Water Treatment Project Phase II (濱州開發區污水處理項目二期)	Under construction	Everbright Water (Binzhou) Limited (光大水務(濱州)有限公司) (formerly known as Binzhou Jin Di Co., Ltd (濱州金迪水務有限公司))	100	November 25, 2018	November 2019	BOT	August 7, 2018	18	20,000	20,000	1.536	Class I Standard A	67.0	4.23	62.77	10.79	November 2018
88.	Dezhou	Dezhou Lingcheng Waste Water Pipeline Network PPP Project (德州市陵城區污水管網PPP項目) <sup>(b)</sup>	Under construction	Dezhou Everbright Water Pipeline Limited (德州市光大水務管網有限公司)	100	April 20, 2018	April 2019	BOT	December 6, 2017	22	N/A	N/A	N/A	N/A	70	50.79	19.21	13	March 2018
89.	Dezhou	Nanyunhe Waste Water Treatment Project Phase II (德州南運河污水處理項目二期)	Under construction	Everbright Water (Dezhou) Limited (光大水務(德州)有限公司)	100	February 3, 2019	December 2019	BOT	May 5, 2018	25	75,000	40,000 <sup>(8)</sup> 50,000 <sup>(8)</sup> 60,000 <sup>(8)</sup> 70,000 <sup>(8)</sup>	1.299	Class I Standard A	157.96	29.75	128.21	16.18	October 2018
90.	Ji'nan	Ji'nan Waste Water Treatment Project (Plant I) Phase IV Expansion (濟南污水處理項目(一廠)四期擴建)	Under construction	Everbright Water (Ji'nan) Limited (光大水務(濟南)有限公司)	100	August 7, 2018	May 2019	BOT	July 20, 2018	18	100,000	75,000 <sup>(9)</sup> 90,000 <sup>(9)</sup>	1.733 <sup>(6)</sup>	Class I Standard A and Surface Water Quality Standard (《地表水環境質量標準》) (GB3838-2002) Class V	489.11	210.59	278.52	11.73	May 2018
91.	Ji'nan	Ji'nan Waste Water Treatment Project (Plant II) Phase III Expansion (濟南污水處理項目(二廠)三期擴建)	Under construction	Everbright Water (Ji'nan) Limited (光大水務(濟南)有限公司)	100	August 7, 2018	May 2019	BOT	July 20, 2018	18	100,000	75,000 <sup>(9)</sup> 90,000 <sup>(9)</sup>	1.733 <sup>(6)</sup>	Class I Standard A and Surface Water Quality Standard (《地表水環境質量標準》) (GB3838-2002) Class V	553.91	282.62	271.29	11.73	May 2018

(56) Investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.

(57) This project includes a pipeline network with a total length of 28 km and two wastewater relief stations.

(58) The guaranteed minimum treatment volume (tonnes/day) will be 40,000 from the first year of commercial operation and shall increase to 50,000 for the third year, 60,000 for the fifth year and 70,000 for the ninth year and thereafter.

(59) The guaranteed minimum treatment volume (tonnes/day) will be 75,000 from the first year of commercial operation and shall increase to 90,000 for the second year and thereafter.

(60) Represents the combined tariff of Plant I, Plant II (Expansion), Plant II and Plant II (Expansion).

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No.	Location	Project and Type	Progress/Phase	Project Company	Our Group's Effective Interest (%)	Construction Commencement Date	Expected Completion Date	Type of Project Model	Date of Signing Service Concession Agreement	Service Concession Arrangement				Water Quality Required	Total Investment (RMB in million)	Total Investment Incurred as at December 31, 2018 (RMB in million)	Total Investment to Be Incurred (RMB in million)	Estimated Investment Payback Period (Year)	Commencement Consolidation with our Group's Financial Statements
										Granted Concession Period (Year)	Designated Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Expected Tariff / Tariff (RMB/tonne, including VAT)						
92.	Zibo	Zibo High-tech Zone Waste Water Treatment Project (淄博高新區污水處理項目操辦改造)	Under construction	Everbright Water (Zibo) Limited 光大水務(淄博)有限公司	100	December 25, 2018	August 2019	BOT	October 31, 2018	30	N/A	N/A	2.20 <sup>(61)</sup>	83	0	83	13.11	N/A	
<b>Jiangsu Region</b>																			
93.	Xuzhou	Xinyi City Waste Water Treatment Project Phase III (新沂城市污水處理項目三期)	Under construction	Everbright Water Operating (Xinyi) Limited 光大水務(新沂)有限公司	51	August 10, 2018	June 2019	BOT	August 24, 2017	24	30,000	21,000 <sup>(62)</sup>	1.24	71.4	17.88	53.52	18.29	June 2018	
<b>Liaoning Region</b>																			
94.	Dalian	Pulandian Waste Water Treatment Project Phase II (普蘭店市污水處理項目二期)	Under construction	Dalian Pulandian Area EW Water Co., Ltd. (大連市普蘭店區光水水務有限公司) (formerly known as Dalian Dongda Environment Water Co., Ltd. (大連東達環境集團普蘭店水務有限公司))	100	June 1, 2018	July 2019	BOT	May 7, 2018	20	30,000	18,000 <sup>(63)</sup> 24,000 <sup>(63)</sup> 30,000 <sup>(63)</sup>	1.389	81.29	56.13	25.16	13.26	June 2018	
<b>Water Environment Treatment</b>																			
<b>Jiangsu Region</b>																			
95.	Zhenjiang	Zhenjiang Sponge City Construction PPP Project (鎮江海綿城市建设PPP項目) <sup>(64)</sup>	Under construction	Everbright Sponge City Development (Zhenjiang) Limited 光大海綿城市建设(鎮江)有限公司	70	November 20, 2016	December 2019	BOT	April 18, 2016	23	200,000	Class I Reclamation: Standard A: 150,000 Class I Deepening: Standard B: 75,000	Class I Standard A (advanced treatment) Class I Standard B (extension project)	1,385.0	420.70	964.30	12.74	June 2016	

(61) Represents the combined tariff of Zibo Waste Water Treatment Project (Southern & Northern Plants) and Zibo High-tech Zone Waste Water Treatment Project.

(62) The guaranteed minimum treatment volume (tonnes/day) will be 21,000 from the first year of commercial operation and shall increase by 5% every two years until reaching 27,000.

(63) The guaranteed minimum treatment volume (tonnes/day) will be 18,000 from the first year of commercial operation and shall increase to 24,000 for the second year and 30,000 for the third year and thereafter.

(64) This project includes a wastewater treatment facility with designed capacity of 200,000 tonnes/day.

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No.	Location	Project and Type	Progress/Phase	Project Company	Our Group's Effective Interest (%)	Construction Commencement Date	Expected Completion Date	Type of Project Model	Date of Signing Service Concession Agreement	Service Concession Arrangement			Water Quality Required	Total Investment (RMB in million)	Total Investment Incurred as at December 31, 2018 (RMB in million)	Total Investment to Be Incurred (RMB in million)	Estimated Investment Payback Period (Year)	Commencement of Consolidation with our Group's Financial Statements
										Granted Concession Period (Year)	Designated Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)						
													Total Investment	Total Investment	Estimated Investment Payback Period	Commencement of Consolidation with our Group's Financial Statements		
													(RMB in million)	(RMB in million)	(Year)	(Year)		
<b>Guangxi Region</b>																		
96.	Nanning	Nanning Shuitiang River Integrated Restoration PPP Project (南寧水壩江綜合整治工程PPP項目) <sup>(65)</sup>	Under construction	Everbright Water Limited (南寧) 有限公	79.65	September 1, 2017	September 2019	BOT	September 1, 2017	20	40,000 <sup>(66)</sup>	N/A	N/A <sup>(67)</sup>	1,466	319.93	1,146.07	10.11	November 2017
<b>Others</b>																		
<b>Shandong Region</b>																		
97.	Ji'nan	Zhangqiu Yellow River Water Transfer and Water Resource Replenishment Project (章丘引黃調水補源項目)	Under construction	Ji'nan Everbright Water Supply (濟南光大供水有限公司)	80	October 27, 2017	June 2019	BOT	April 30, 2017	30	100,000	None	N/A	392.5	256.51	135.99	17.05	September 2017
98.	Ji'nan	Zhangqiu Chengdong Industrial Water Supply Project (章丘城東工業園供水項目)	Under construction	Ji'nan Everbright Water Supply (濟南光大供水有限公司)	80	October 8, 2018	June 2019	BOT	March 23, 2018	30	50,000	None	N/A	51.3	31.85	19.45	17.56	September 2018
<b>Jiangsu Region</b>																		
99.	Wuxi	Jiangyin Chengxi Phase III Pipeline Network Pump Station (澄西三期配水管網泵站)	Under construction	Everbright Water Treatment (Jiangyin) Limited (江陰) 有限公	100	September 30, 2017	May 2019	BOT	August 8, 2017	30	N/A	N/A	Included in the treatment fees charged by Jiangyin Chengxi Waste Water Treatment Project Phase III (江陰澄西污水處理項目三期)	47.1	17.71	29.39	16.49	December 2017

(65) This project includes a wastewater treatment facility with designed capacity of 40,000 tonnes/day.

(66) Refers to the treatment capacity of a wastewater treatment plant in the wastewater treatment facility of this project.

(67) The tariff for this project has already taken into consideration the river maintenance fees.

Projects Held for Future Development

The table below sets forth the details of our significant service concession arrangement projects held for future development as at the Latest Practicable Date:

Service Concession Arrangement																			
No.	Location	Project and Type	Progress/ Phase	Project Company	Our Group's Effective Interest (%)	Expected Construction Commencement Date	Expected Completion Date	Type of Project Model	Date of Signing Service Concession Agreement	Granted Concession Period (Year)	Designated Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff/Expected Tariff (RMB/tonne, including VAT)	Water Quality Required	Total Investment at December 31, to be Incurred (RMB in million)	Estimated Investment Payable Periods	Commencement Date of Consolidation with our Group's Financial Statements		
<b>Wastewater Treatment (unless otherwise indicated, all the following projects treat municipal wastewater)</b>																			
<b>Shandong Region</b>																			
100.	Zibo	Zibo Waste Water Treatment Project (Northern Plant) Relocation (淄博污水处理项目(北廠)遷建)	At the planning stage	Everbright Water (Zibo) Limited (淄博) 有限公司	100	June 2019	June 2020	BOT	October 31, 2018	30	250,000	220,000	2.20 <sup>(68)</sup>	COD≤30mg/L; NH3N≤1.5mg/L; TP≤0.3mg/L; Class I Standard A for other indicators	855	0	855	14.53	N/A
101.	Zibo	Zibo Waste Water Treatment Project (Southern Plant) Upgrading (淄博污水处理项目(南廠)提標改造)	At the planning stage	Everbright Water (Zibo) Limited (淄博) 有限公司	100	June 2019	February 2020	BOT	October 31, 2018	30	N/A	N/A	2.20 <sup>(68)</sup>	COD≤30mg/L; NH3N≤1.5mg/L; TP≤0.3mg/L; Class I Standard A for other indicators	109	0	109	13.11	N/A
102.	Laiyang	Laiyang Economic Development Zone Integrated Restoration PPP Project I (萊陽經濟開發區綜合整治工程PPP項目I) (also treats industrial water)	At the planning stage	Everbright Water (Laiyang) Limited (光大水務(萊陽)有限公司)	90	June 2019	February 2020	BOT	November 5, 2018	20	15,000	13,000 <sup>(69)</sup> 14,000 <sup>(70)</sup> 15,000 <sup>(70)</sup>	4.86	Class I Standard A	113.05	0	113.05	13.5	N/A

(68) Estimated investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.

(69) Represents the combined tariff of Zibo Waste Water Treatment Project (Southern & Northern Plants) and Zibo High-tech Zone Waste Water Treatment Project.

(70) The guaranteed minimum treatment volume (tonnes/day) will be 13,000 from the first year of commercial operation and shall increase to 14,000 for the second year and 15,000 for the third year and thereafter.

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Service Concession Arrangement																		
No.	Location	Project and Type	Progress/Phase	Project Company	Our Group's Effective Interest (%)	Expected Construction Commencement Date	Expected Completion Date	Type of Project Model	Date of Signing Service Concession Agreement	Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff / Expected Water Quality Required (RMB/tonne including VAT)	Total Investment (RMB in million)	Total Investment Incurred as at December 31, 2018 (RMB in million)	Total Investment to be Incurred (RMB in million)	Estimated Investment Payback Period	Commencement Date of Consolidation with our Group's Financial Statements
<b>Jiangsu Region</b>																		
103.	Jiangyin	Jiangyin Binjiang Waste Water Treatment (Plant 2) and Pipeline Network Project (江陰濱江污水處理廠(第二廠)及配套管網項目)	At the planning stage	Everbright Water (Jiangyin) Limited (光大水務(江陰)有限公司)	70	November 2019	November 2020	BOT	November 28, 2018	30	40,000	28,000 <sup>(71)</sup> 32,000 <sup>(71)</sup> 34,000 <sup>(71)</sup>	2.88	229.21	0	229.21	14.99	N/A
104.	Wuxi	Jiangyin Chengxi Waste Water Treatment Plant III (江陰澄西污水處理項目三期)	At the planning stage	Everbright Water (Jiangyin) Limited (光大水務(江陰)有限公司)	70	June 2019	December 2019	BOT	August 8, 2017	30	30,000	21,000 <sup>(72)</sup> 24,000 <sup>(72)</sup> 25,500 <sup>(72)</sup>	2.32	161	0	161	16.49	N/A
105.	Yangzhou	Yangzhou Jiangdu Zone Industrial Wastewater Centralized Pre-treatment and Ancillary Pipeline Network Project (揚州江都開源區工業水集中預處理及配套管網項目)	At the planning stage	Everbright Water (Yangzhou) Limited (光大水務(揚州)有限公司) as Yangzhou Han Kore Water Development Co., Ltd (揚州漢科水處理發展有限公司)	100	May 2019	August 2019	BOT	September 10, 2018	21	6,000	4,000 <sup>(73)</sup> 4,500 <sup>(73)</sup> 5,000 <sup>(73)</sup>	9.66	55.0	2.98	52.02	10.06	October 2018
106.	Xuzhou	Xuzhou Yanqun Household Waste Landfill Leachate Treatment Project (徐州雁群生活垃圾填埋場滲濾液處理項目)	At the planning stage	Beijing Everbright Water Investment Management Co., Ltd. (北京光大水務投資管理有限公司)	100	May 2019	August 2019	BOT	October 26, 2018	5	600	500	148	51.46	0	51.46	3.88	N/A
<b>Water Environment Treatment</b>																		
<b>Hubei Region</b>																		
107.	Suizhou	Suizhou Fuhe Riverbanks Landscaping Project (隨州府河兩岸景觀綠化項目)	At the planning stage	Everbright Water/Suizhou Water Environment Management Limited (光大水務隨州水環境治理有限公司)	78.4	July 2019	December 2019	BOT	March 28, 2017	13	N/A	N/A	N/A	161.54	0	161.54	9.96	N/A

(71) The guaranteed minimum treatment volume (tonnes/day) will be 28,000 from the first year of commercial operation and shall increase to 32,000 for the second year and 34,000 for the third year and thereafter.

(72) The guaranteed minimum treatment volume (tonnes/day) will be 21,000 from the first year of commercial operation and shall increase to 24,000 for the second year and 25,500 for the third year and thereafter.

(73) The guaranteed minimum treatment volume (tonnes/day) will be 4,000 from the first year of commercial operation and shall increase to 4,500 for the second year and 5,000 for the third year and thereafter.



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Service Concession Arrangement																		
No.	Location	Project and Type	Progress/ Phase	Project Company	Our Group's Effective Interest (%)	Expected Construction Commencement Date	Expected Completion Date	Type of Project Model	Date of Signing Service Concession Agreement	Granted Concession Period (Year)	Designed Capacity (tunes/ day)	Guaranteed Minimum Treatment Volume (tunes/day)	Tariff / Expected Tariff (RMB/ tune, including VAT)	Water Quality Required	Total Investment Incurred as at December 31, 2018 (RMB in million)	Total Investment to be Incurred (RMB in million)	Estimated Investment Payback Period	Commencement Date of Consolidation with our Group's Financial Statements
108.	Suizhou	Suizhou Paoshui Park Phase I Construction Project (蘇州市濉水公園一期工程項目)	At the planning stage	Everbright Water-Suizhou Environment Management Limited (光大水務蘇州水環境管理有限公司)	78.4	July 2019	December 2019	BOT	March 28, 2017	13	N/A	N/A	N/A	N/A	0	426.40	9.96	N/A
<b>Shandong Region</b>																		
109.	Laiyang	Laiyang Economic Development Zone Integrated Restoration PPP Project II (萊陽經濟開發區綜合整治工程PPP項目II)	At the planning stage	Everbright Water Limited (光大水務(萊陽)有限公司)	90	July 2019	February 2022	BOT	November 5, 2018	20	N/A	N/A	N/A	Surface Water Quality Standard (《地表水環境質量標準》)(GB3838-2002) Class V <sup>(74)</sup>	0	371.3	13.5	N/A

(74) Total nitrogen requirement does not apply.

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Service Concession Arrangement																			
No.	Location	Project and Type	Progress/ Phase	Project Company	Our Group's Effective Interest (%)	Expected Construction Commencement Date	Expected Completion Date	Type of Project Model	Date of Signing Service Concession Agreement	Granted Concession Period (Year)	Designed Capacity (tonnes/day)	Guaranteed Minimum Treatment Volume (tonnes/day)	Tariff / Expected Tariff (RMB/tonne, including VAT)	Water Quality Required	Total Investment (RMB in million)	Total Investment Incurred as at December 31, 2018 (RMB in million)	Total Investment to be Incurred (RMB in million)	Estimated Investment Payback Period	Commencement Date of Consolidation with our Group's Financial Statements
<b>Others</b>																			
<b>Jiangsu Region</b>																			
110.	Nanjing	Nanjing Pukou Reusable Water Project Phase II (南京浦口中水二期)	At the planning stage	Everbright Reusable Water Limited (光大中水利用(南京)有限公司)	100	May 2019	March 2020	BOT	December 19, 2018	12.5	40,000	20,000 <sup>(75)</sup> 30,000 <sup>(75)</sup> 40,000 <sup>(75)</sup>	3.823	Surface Water Quality Standard (《地表水环境质量标准》)	200	0	200	4.7	N/A
<b>Shandong Region</b>																			
111.	Ji'nan	Zhangqiu Baiyun Water Supply Project Phase I (章丘白雲水廠一期工程項目)	At the planning stage	Ji'nan Everbright Water Supply (濟南光大供水有限公司)	80	Pending	Pending	BOT	March 23, 2018	30	100,000	None	N/A	Standards for Drinking Water Quality (《生活飲用水衛生標準》(GB5749-2006))	1,079.59	0	1,079.59	18.3	N/A

(75) The guaranteed minimum treatment volume (tonnes/day) will be 20,000 from the first year of commercial operation and shall increase to 30,000 for the second year and 40,000 for the third year and thereafter.

**TREATMENT PROCESSES**

**Wastewater Treatment Projects**

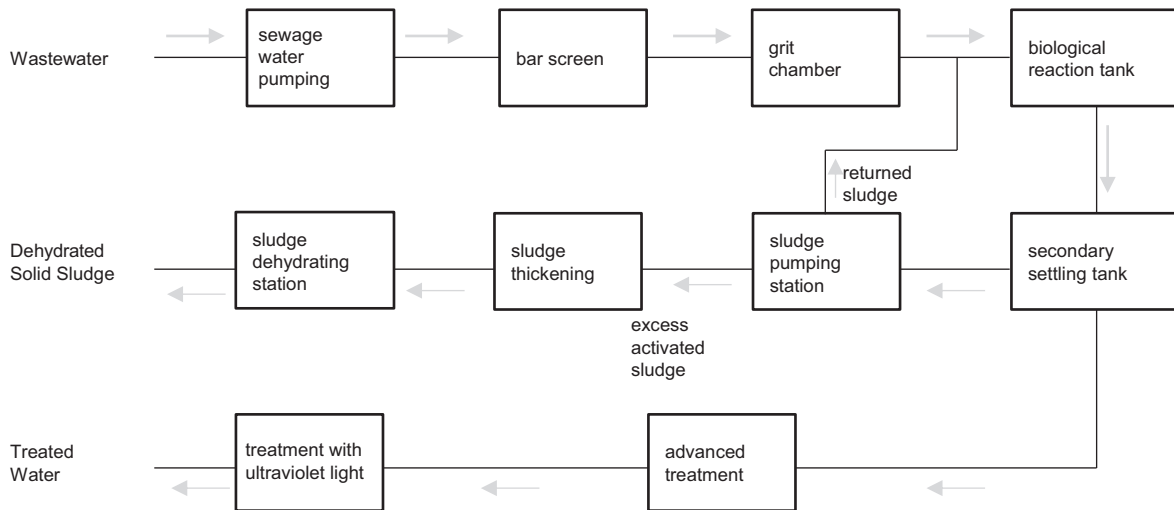
As at December 31, 2018, we had 78 wastewater treatment projects in operation under our service concession arrangements. For details of our average utilization rate, please see “Business — Utilization Rate”.

We focus on the treatment of municipal wastewater and industrial wastewater.

*Municipal wastewater*

Municipal wastewater usually consists of domestic sewage and infiltrated ground water, which contain organic pollutants and pathogens that are likely to cause odor and transmit diseases. Therefore, it must be treated before being discharged. Municipal wastewater is collected and carried through municipal pipeline networks to wastewater treatment plants for treatment. We treat wastewater using physical, biological and chemical processes before it is discharged to the environment. We adopt various processes to treat municipal wastewater based upon (i) the composition of the wastewater; (ii) the standards to be achieved for the treated wastewater; (iii) the volume of wastewater to be treated; and (iv) the construction conditions and the impact of construction on the surrounding environment. Different treatment techniques can be combined to maximize the effect of the treatment and to reduce treatment costs. In operating our municipal wastewater treatment projects, we have devised treatment techniques including catalytic oxidation, smart water platform and biological aerated filter.

The following flowchart illustrates the major steps of our municipal wastewater treatment process:



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## BUSINESS

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In general, wastewater is collected by the municipal wastewater pipeline network and pumped to the wastewater treatment plants for treatment. In a typical wastewater treatment system, wastewater treatment can be divided into three stages: pre-treatment stage, biological treatment stage and advanced treatment stage:

- *Pre-treatment.* This is the process in which floating particles in the wastewater are intercepted and removed by physical treatment methods. The grit chamber then removes grit or particles with heavier specific gravities and larger particle sizes. The primary sedimentation tank is used to decrease the solid concentration in the wastewater.
- *Biological treatment.* This process focuses on the application of cultivated micro-organisms to remove colloid and soluble organic pollutants in the wastewater. The major technologies that we use in our wastewater treatment plants are AAO, Oxidation Ditch, SBR and Bardenpho.
- *Advanced treatment.* This is the process in which suspended solids, total phosphorus, nitrogen and organic matters, which are difficult to degrade in the water, are further treated through physical and chemical treatment methods, and, if necessary, further treated in combination with the biological treatment methods.

### *Industrial wastewater*

Pollutants in industrial wastewater typically include organic and inorganic pollutants as well as pathogens. Due to the varying types, nature and concentration of pollutants found in industrial wastewater, the technologies and processes used in its treatment differ from those used in municipal wastewater treatment and also vary by industry. We customize and adapt the technologies we use, some of which are our proprietary technologies and know-how, for the treatment of industrial wastewater for different industries based on our analysis of (i) the composition of the industrial wastewater; (ii) the stipulated discharge standards (which vary by industry); (iii) our customer's desired specifications; and (iv) the quantity of wastewater to be treated. We focus on the treatment of industrial wastewater for the chemical and electronic industries, as we believe these industries have strong growth potential which may generate more business for our industrial wastewater treatment projects.

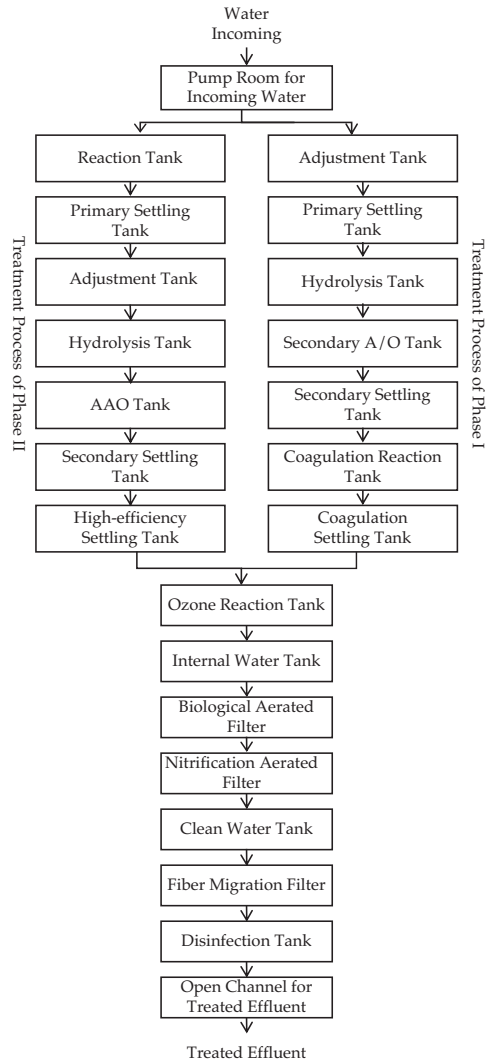
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# BUSINESS

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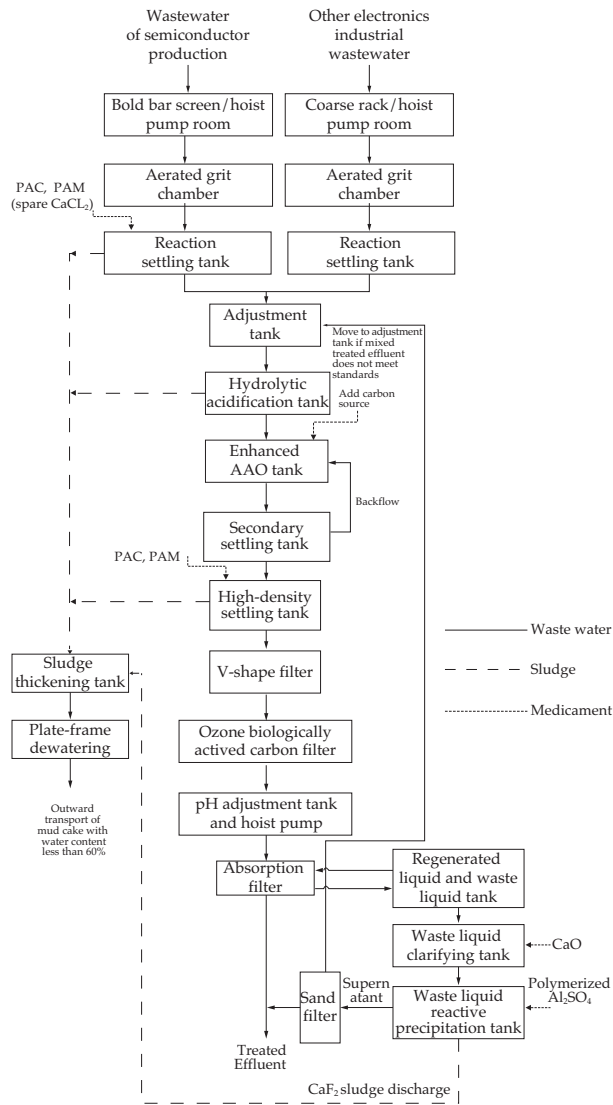
The following flowchart illustrates the major steps of our industrial wastewater treatment for chemical and electronic industries, respectively:

For chemical industrial wastewater:



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For electronics industrial wastewater:



## Water Environment Treatment Projects

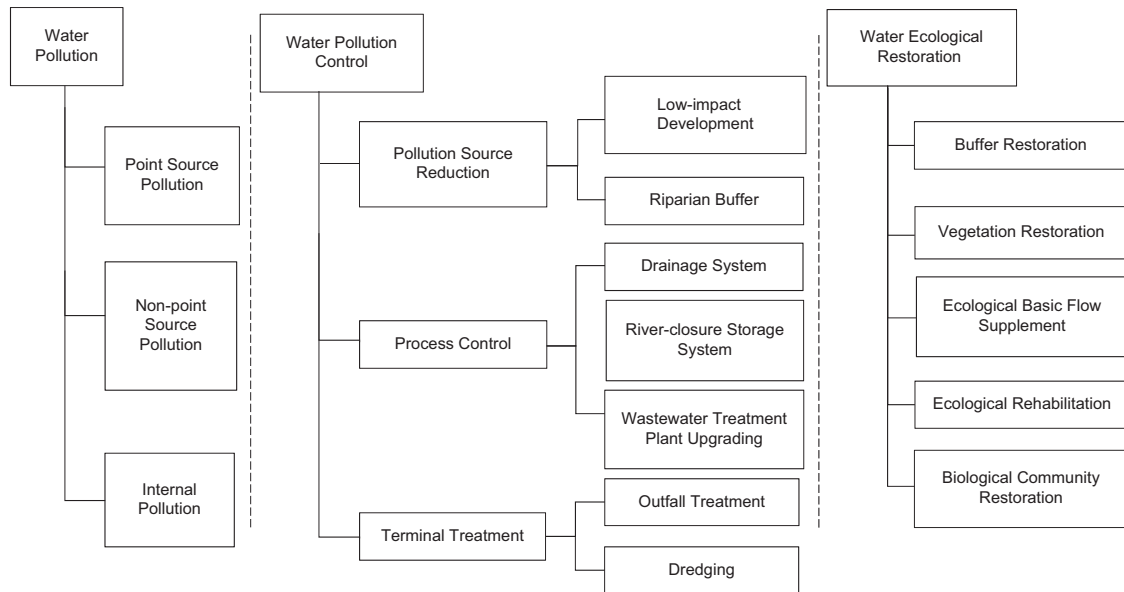
As at December 31, 2018, we had one water environment treatment project in operation and two projects under construction.

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## BUSINESS

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The following flow chart provides an overview of the major steps of our water environment treatment projects:



### *Water pollution*

According to the distribution characteristics of pollution sources, water pollution can be divided into point source pollution (such as municipal wastewater, industrial enterprise pollution, ship pollution, etc.), non-point source pollution (such as surface runoff of rainwater, soil erosion, large area of farmland drainage, etc.), and internal pollution (such as release of sediment pollution, release of animal and plant putrefaction, etc.).

### *Water pollution control*

Water pollution control refers to method of controlling the total amount of pollution released into water through source reduction, process control and terminal treatment. The main goal is to restore the environmental capacity and to achieve quality management indicators by this method.

### *Water ecological restoration*

Water ecological restoration refers to constructing healthy and perfect river habitats by improving the hydrology, geography, biology and structural functions, so as to restore the structure and function of river ecosystem to the state before being damaged. In this way, the river can regain ecological factors such as biodiversity, habitat protection, ecological base flow, etc.

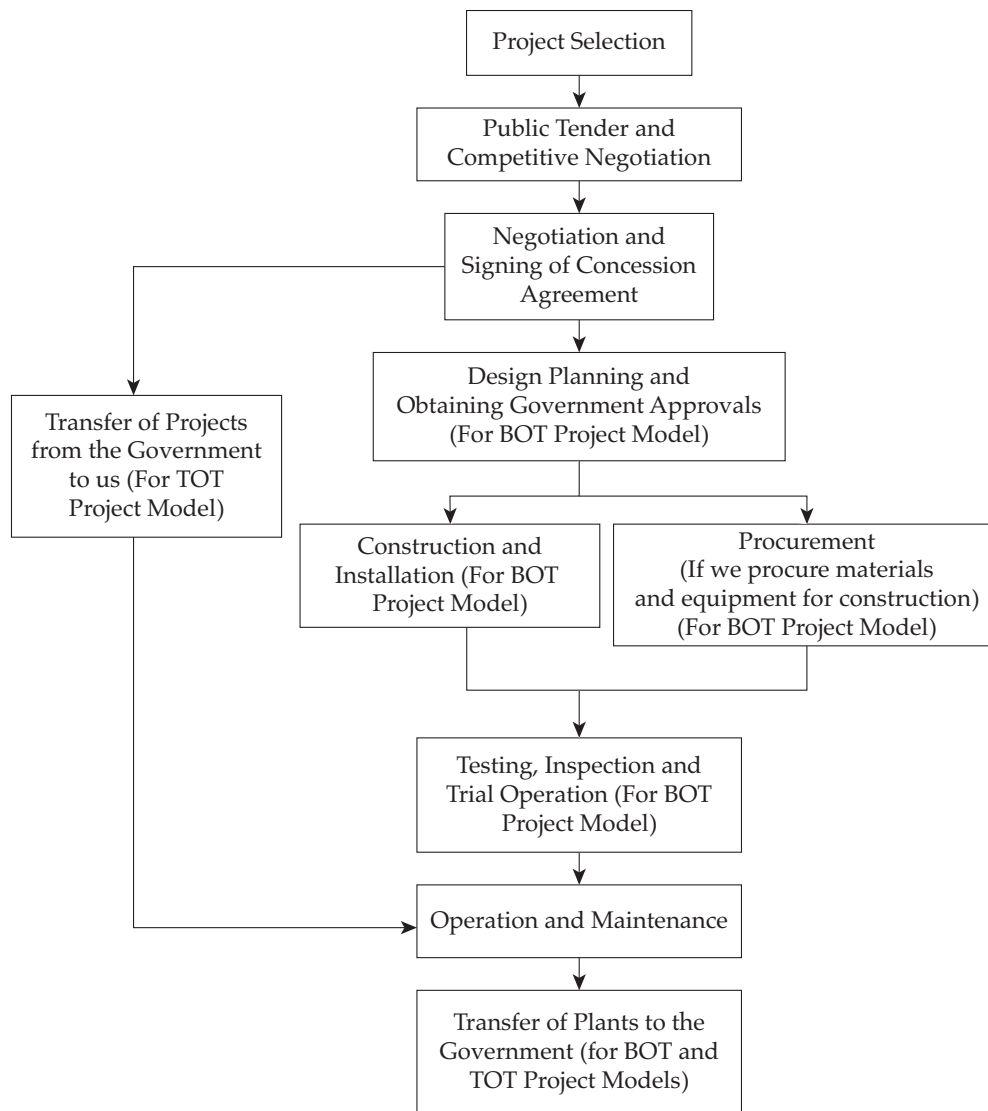
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## BUSINESS

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### PROJECT MANAGEMENT PROCESS

We manage our service concession arrangement projects by using a number of processes. Depending on which project model is adopted, some of the processes may not be applicable. The following is a discussion of our typical project management process adopted in our BOT and TOT project models. Our typical project management process includes the following:



#### Project selection (applicable to the BOT and TOT project models)

We believe we have established a strong reputation in executing and operating wastewater treatment projects over the years which enables us to compete with our peers and to obtain quality new projects. We focus on our targeted regions to pursue projects granted by local governments or designated agencies. If our existing customers have an increase in demand for additional treatment volume or improvement in environmental standards, we may also obtain expansion or upgrade



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## BUSINESS

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projects from these customers. In order to seek potential projects, we collect market information from existing customers and other market participants.

We have established a project selection system under which every potential project is assessed by the investment development department, which is dedicated to selecting and approaching potential government clients for new projects. The investment development department consists of 16 members and is led by Mr. Zhang Guofeng. This department will prepare a due diligence report on potential projects for further consideration. We have also set up a risk assessment committee comprising Mr. Luo Junling, Mr. Sun Zhiming, Ms. Zhao Weiwei, Ms. Wen Hui, Ms. Peng Pei and Mr. Siu Ho Fai to assist our management in making decisions on new investment projects. In relation to the investment project which is subject to the Board's approval, the risk assessment committee's findings and recommendations will also be submitted to the Board for consideration.

We typically conduct an internal study of a potential project to assess its potential economic return and environmental impact. We consider factors including zoning and planning, applicable tariffs, relationships with the local government and community, cost of construction or acquisition, potential revenue and profitability, financial performance and credibility of the local government etc. In order for a project to be considered, it must have a reasonable rate of return, be in line with our business mandate, be able to contribute to our growth and the local government must have sound financial capability.

In addition, to leverage our wastewater treatment capabilities and further increase our presence in areas where we currently operate wastewater treatment plants, we also actively pursue business expansion by exploring opportunities in relatively new types of projects, such as sponge city construction, river-basin ecological restoration, industrial wastewater treatment, reusable water and wastewater heat source pump, etc. For existing projects, we would liaise with the local governments to seek opportunities to upgrade or expand our projects.

### **Public Tender and Competitive Negotiation Procedures (applicable to BOT and TOT project models)**

As our customers are usually government bodies, we generally acquire new projects via public tender or competitive negotiation except for upgrades or expansion of our existing projects.

For public tender, we generally gain access to tender notices through the Internet or announcements published by the local governments. After the commencement of a tender process, we usually have between 20 and 30 days to inquire about the tender provisions with the local government and prepare the final bidding documents to be submitted to the relevant local government. We generally prepare and submit bidding documents according to the bidding provisions issued by relevant local government.

According to the information collected and reports produced by our investment department, our business team actively participates in the bidding process and prepares relevant bidding

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documents based on their professional knowledge in various fields. Such process consists of careful consideration of project quotation, technologies and treatment process used or involved in the projects, and the project's overall operation costs.

After submission of the bidding documents, the local governments will take into account a number of factors in assessing the relevant bids. These factors include the applicants' project quotation, credentials and qualifications, project management ability, reputation, experience, technical design and suggested commercial terms.

During the Track Record Period, we were not aware of any material disputes, claims or complaints in relation to our tendered projects or our acquisitions. For details of the regulatory and procedural requirements of the public tender process, see "Regulations Overview — Concession in Municipal Public Utilities Projects".

Pursuant to the Measures for the Administration of Concession for Infrastructure and Public Utilities, government authorities are required to select investors and operators of public utility projects through public tender. However, pursuant to the Government Procurement Law, government procurement may be conducted in the form of public tender, competitive negotiation or other methods. Although public tender is generally viewed as the primary method for government procurement, the government may also procure services and/or construction through competitive negotiations in accordance with the Government Procurement Law.

In addition to public tenders, we participate in competitive negotiations in order to obtain some of our projects. For competitive negotiations, the local government typically will establish a working group and will invite potential candidates to participate in competitive negotiations in accordance with the Government Procurement Law and we will then conduct one-on-one negotiations with the local government. The local government will then select a winner and enter into a concession agreement with the successful party.

### **Negotiation and signing of concession agreement (applicable to BOT and TOT project models)**

Under our BOT project, after winning a tender or a successful negotiation, we will sign a service concession arrangement, normally through our PRC operating subsidiaries or project companies, with the local government or their designee to obtain the concession rights to operate the relevant project. For our TOT projects, we will sign either asset purchase agreements to purchase the relevant plants from the local governments or third parties or share purchase agreements to purchase the companies that own the relevant plants before signing the service concession agreement. Depending on the parties' negotiation, we will generally settle the consideration for acquiring the underlying assets by installments.

### **Design planning and obtaining government approvals (applicable to the BOT project model only)**

Before we commence construction of a project, the local governments usually assist us in obtaining certain approvals and permits required for the construction of the plant. See "Business —

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Licenses and Permits” for details of the approvals and permits that we need in order to commence construction of the plants.

After obtaining the necessary approvals and permits, our project companies lead the preparation of a project implementation plan. This process generally involves further due diligence and a deeper analysis of the issues identified in the initial due diligence. During the preparation of the project implementation plan, we take into account our customers’ specifications and the relevant PRC laws and regulations, and outline and plan the proposed treatment processes or supply processes to be used. We may commission design institutes or use our Xuzhou Design Institute that we acquired in June 2018 to draft design proposals. In such cases, we work closely with them throughout the design planning process, which typically takes approximately one to two months depending on the complexity of the project. Before we commence construction, we are required to obtain approval from the government by submitting the design scheme to the government for examination.

### **Procurement, Construction and Installation (applicable to the BOT project model only)**

We are responsible for constructing the relevant treatment/supply plants for our BOT project. We generally do not construct plants by ourselves but instead engage qualified third-party contractors to construct the plants and install the necessary equipment and systems. See “Business — Suppliers” for our procedures for selecting relevant contractors.

The materials used for constructing our projects and the equipment and systems installed during construction are sometimes provided or purchased by the third-party contractors. Depending on the agreed terms with our third-party contractors, we may sometimes be required to supply and purchase such materials and equipment ourselves. Our procurement policies generally require that materials and equipment be purchased via a tender process.

Our third-party contractor will carry out construction according to approved design plans, and depending on the specifications and complexity of the projects, the construction process generally lasts for several months or more. We are responsible for paying construction fees to our third-party contractors. During the construction period, we will supervise the progress, safety and quality of the construction work after the third-party contractor begins construction. We generally appoint a qualified third-party project supervision company to supervise the performance of the third-party contractor. Relevant governmental quality supervision departments may, if they deem necessary, also supervise and examine the construction progress and quality and safety of the construction work.

### **Testing, inspection and trial operation (applicable to the BOT project model only)**

After the completion of the construction of a project, we test, inspect and optimize the system to ensure that the plant operates in accordance with the terms of the relevant service concession agreements. After completing the testing process, in some instances, depending on the terms of the service concession agreements, the project will undergo a trial operation stage. During this stage, local

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environmental protection departments will evaluate the quality of the treated wastewater or sludge by the plants. If the relevant standards are met, the relevant local environmental protection department will approve the commercial operation of the plant.

### **Operation and maintenance (applicable to the BOT and TOT project models)**

We have developed comprehensive plans for operating and maintaining our plants, including quality control systems for the treatment supply stage, equipment maintenance and repairs, process and operational management systems and the safety systems.

During the concession period, we operate and maintain our treatment and supply plants according to the specifications set out in the service concession agreements between us and the local government. During the project operation period, we bear the cost of operation, maintenance and repair of the plants. We maintain our plants on a regular basis depending on the type of equipment and components used in the relevant plant. We also have a maintenance management system which sets out preventative measures and regular inspection schedules in order to keep the plants in a good condition.

During the project operation period, we comply with the standards for wastewater treatment and sludge treatment in all material respects as stipulated in the relevant service concession agreements, as well as applicable regulatory standards. Relevant government departments will test and supervise the quality of the treated wastewater or sludge treated by our plants. In our municipal wastewater treatment business, we are required to comply with the Pollutant Discharge Standard for Municipal Wastewater Treatment Plants (GB18918-2002) for the treated wastewater. During the Track Record Period, the sludge treated by our plants generally must comply with the standard of Mud for Land Improvement — Sludge Treatment by Municipal Wastewater Treatment Plant (GB/T24600-2009), Mud for Landscaping — Sludge Treatment by Municipal Wastewater Treatment Plant (GB/T23486-2009) or Mud for Blended Landfill — Sludge Treatment by Municipal Wastewater Treatment Plant (GBT23485-2009).

During the operating period, we charge our customers fees in accordance with the relevant provisions set out in the service concession agreements.

### **Transfer of projects from the government to us (applicable to the TOT project model only)**

After entering into asset purchase agreements or share purchase agreements with us, the local governments will transfer the plants to us or our operating subsidiaries or project companies upon the date agreed in the agreements. In some cases, the local governments will also provide a warranty period for the transferred plants after the initial transfer date.

On the initial transfer date, the local government will transfer the right to possess, operate and receive income to us, together with the land use right and all relevant documents relating to the plant.

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We generally retain the employees working at the plant or pay the employees a settlement fee in the event that they are not retained. All existing agreements entered into relating to the plants by the local government will be transferred to us, except that any liabilities created by the local governments shall be borne by the relevant local government unless specifically agreed between the relevant local government and us; and all risks associated with the plants will be transferred to us on the initial transfer date, except for any loss resulting from any negligence of the local governments.

After receiving the plants, we will establish special groups comprising members from various departments. We may also carry out repair work to the plants depending on the conditions and state of the transferred plants. Subject to the terms set out in the agreement between us and the local government, we generally have to bear all or a certain proportion of the costs of the repair work.

### **Transfer to the government (applicable to the BOT and TOT project models only)**

Under the BOT and TOT project models, we are required to transfer the plants to the local governments following the expiration of the concession period. Prior to the transfer, we will generally carry out all necessary repair work to the plants to ensure that they are in good working order. After the transfer of the plants to the local governments, we will no longer be responsible for any further maintenance towards the plants. However, in some cases, we will have to provide a warranty to the local governments for an agreed period following the transfer, typically for a period of 12 months since the date of transfer. During the warranty period, we are responsible for the maintenance and repair of the plants at our costs.

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### UTILIZATION RATE

The following table sets out the average utilization rates for our service concession arrangement projects under the wastewater treatment business line which are in operation during the Track Record Period.

As at December 31, 2016

Total number of wastewater treatment projects in operation <sup>(1)</sup>	Total treated volume (tons / day)	Average treated / supply volume per project (tons / day) <sup>(2)</sup>	Total designed capacity (tons / day)	Average designed capacity per project (tons / day) <sup>(3)</sup>	Utilization rate (%) <sup>(4)</sup>
58	2,804,512	48,354	3,795,000	65,431	73.9

As at December 31, 2017

Total number of wastewater treatment projects in operation <sup>(1)</sup>	Total treated volume (tons / day)	Average treated / supply volume per project (tons / day) <sup>(2)</sup>	Total designed capacity (tons / day)	Average designed capacity per project (tons / day) <sup>(3)</sup>	Utilization rate (%) <sup>(4)</sup>
61	2,893,257	47,430	3,835,000	62,869	75.4

As at December 31, 2018

Total number of wastewater treatment projects in operation <sup>(1)</sup>	Total treated volume (tons / day)	Average treated / supply volume per project (tons / day) <sup>(2)</sup>	Total designed capacity (tons / day)	Average designed capacity per project (tons / day) <sup>(3)</sup>	Utilization rate (%) <sup>(4)</sup>
62	3,482,871	56,175	3,865,000	62,339	90.1

Notes:

- (1) The total number of projects in operation does not include upgrading projects, which improve the treatment standard but do not contribute any additional designed capacity.
- (2) The average treated volume is calculated by dividing the total treated volume of our service concession arrangement projects by their total number.
- (3) The average designed capacity is calculated by dividing the total designed capacity of our service concession arrangement projects by their total number.
- (4) The utilization rate is calculated by dividing the average treated volume by the average designed capacity.

During the Track Record Period, the average designed capacity per project has decreased from 65,431 tons/day as at December 31, 2016 to 62,339 tons/day as at December 31, 2018, primarily because (i) a number of new wastewater treatment projects obtained during this period in operation under our service concession arrangements have a relatively lower designed capacity, and (ii) the additional designed capacity brought by expansion projects are generally lower than that of the newly acquired projects of our Group. Despite the decrease in the average designed capacity for our wastewater treatment projects during the Track Record Period, the total designed capacity of these projects has increased from 3,795,000 tons/day as at December 31, 2016 to 3,865,000 tons/day as at December 31, 2018, and the utilization rate for these projects has increased from 73.9% as at December 31, 2016 to 90.1% as at December 31, 2018. According to Frost & Sullivan, the industry average utilization rate of municipal wastewater treatment facilities for the years ended December 2015, 2016 and 2017 is 81.7%, 80.9% and 80.4%, respectively.

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### INCORPORATION OF E+B UMWELTTECHNIK GMBH

On February 12, 2018, we, through our wholly-owned subsidiary, Joyer International Limited, established E+B Umwelttechnik GmbH, in Germany, with RBH Reinhold Brenner Holding GmbH. RBH Reinhold Brenner Holding GmbH is an environmental protection company in Germany with a number of water technologies and experience in the water industry. With our holding of an 80% equity stake in the joint-venture company, we believe that we are able to leverage the strength of the joint-venture company as our key “technology research and development, application and commercialization” platform, focusing on research and development, engineering services, technology transfer, and equipment sale, procurement, installation and commissioning in areas related to our water business. We expect to create our overseas business channels and enhance international exchange and collaborations. We also consider that it will also help us acquire talents and technologies from overseas, promote our core technologies globally and explore more opportunities for future growth.

### PROJECT FINANCING

For our service concession arrangement projects, we do not receive payments from our customers until the projects are in operation, while for our construction projects, upon the completion of the constructed project. As a result, we have to incur substantial capital expenditure in developing such projects. Please see “Risk Factors — Risks Relating to our Business and Industry — There is a mismatch between our revenue and the underlying cash flows for our projects accounted for as service concession agreements. In addition, the business models we adopt can adversely affect our financial performance and liquidity position”. During the Track Record Period, we funded the development and construction costs of our service concession arrangement projects and construction projects through internal resources, bank and other loans, as well as the proceeds from the First Tranche Panda Bonds and the Second Tranche Panda Bonds. During the Track Record Period and up to the Latest Practicable Date, at least 33% of the development and construction costs of our service concession arrangement projects were funded through our internally generated funds for these purposes (including proceeds from the First Tranche Panda Bonds, the Second Tranche Panda Bonds and the Third Tranche Panda Bonds), with the remaining amount being financed through bank loans.

For the years ended December 31, 2016, 2017 and 2018, our capital expenditures were HK\$1,276.5 million, HK\$1,922.7 million and HK\$2,247.4 million, respectively. As at February 28, 2019, our total borrowings amounted to HK\$8,746.5 million. Please see “Financial Information — Indebtedness” for more details of our outstanding borrowings balance.

Going forward, we intend to use the proceeds from the Global Offering, our internal resources and other bank borrowings and debt securities to be issued by our Group to finance the development cost of our service concession arrangement projects and future acquisition projects.

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As at the Latest Practicable Date, our planned capital expenditure for the year ending December 31, 2019 was expected to be approximately HK\$3,183.1 million. For details of our planned capital expenditures, please see “Financial Information — Capital Expenditures and Investment”.

Our planned capital expenditure may be subject to changes due to variations in our future cash flow, results of operations and financial condition, number of new projects, changes in the PRC and the world economy, the availability of financing on terms acceptable to us, technical and other problems in obtaining and installing equipment, changes in the laws and regulations in the PRC and other factors.

### SALES AND MARKETING

Due to the nature of our businesses, minimal marketing is required after we secure the applicable projects. For our business development efforts for new projects, see “— Project Management Process — Project selection (applicable to BOT and TOT project models)”. The senior management team of each of our project companies is responsible for maintaining customer relationships and promoting our services.

### CUSTOMERS AND PRICING

#### Customers

During the Track Record Period, our customers for wastewater treatment, water environment treatment and other projects were generally municipal, district or county-level governments in the PRC. We were generally able to establish long-term relationships with the local government entities due to the nature of our business. Subject to the type of project, we generally grant our customers a credit period of approximately 5 to 30 days and payments are generally made to us by inter-bank remittance.

The total revenue from our top five customers for the years ended December 31, 2016, 2017 and 2018 were approximately HK\$1,465.5 million, HK\$1,646.9 million and HK\$2,786.9 million, respectively, accounting for approximately 58.8%, 45.9% and 58.4% of our total revenue for such periods, respectively. Our top five customers during the Track Record Period were local governments or functional departments of local governments. For the years ended December 31, 2016, 2017 and 2018, our largest customer accounted for 27.6%, 12.6% and 33.2% of our total revenue, respectively. For further details of our customer concentration risk, see “Risk Factors — Risks Relating to Our Business and Industry — We are exposed to concentration risk of reliance on our top five customers”.



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The table below sets out certain information with respect to the Group's five largest customers during the Track Record Period:

For the year ended December 31, 2016:

No.	Customer	Construction revenue (HK\$'000)	Operation revenue (HK\$'000)	Finance income (HK\$'000)	Total transaction amount (HK\$'000)	Percentage of transaction amount to revenue in the year (%)
1	Customer A	408,647	182,363	97,770	688,780	27.6
2	Customer B	255,741	4,276	17,306	277,323	11.1
3	Customer C	76,777	89,479	29,195	195,451	7.9
4	Customer D	50,129	33,131	68,787	152,047	6.1
5	Customer E	80,170	46,948	24,809	151,927	6.1
	Total:	871,464	356,197	237,867	1,465,528	58.8

For the year ended December 31, 2017:

No.	Customer	Construction revenue (HK\$'000)	Operation revenue (HK\$'000)	Finance income (HK\$'000)	Total transaction amount (HK\$'000)	Percentage of transaction amount to revenue in the year (%)
1	Customer F	434,596	—	16,326	450,922	12.6
2	Customer G	342,403	—	8,389	350,792	9.8
3	Customer A	44,833	176,859	104,942	326,634	9.1
4	Customer H	262,278	—	518	262,796	7.3
5	Customer I	207,029	9,684	39,054	255,767	7.1
	Total:	1,291,139	186,543	169,229	1,646,911	45.9

For the year ended December 31, 2018:

No.	Customer	Construction revenue (HK\$'000)	Operation revenue (HK\$'000)	Finance income (HK\$'000)	Total transaction amount (HK\$'000)	Percentage of transaction amount to revenue in the year (%)
1	Customer A	1,238,623	209,645	136,928	1,585,196	33.2
2	Customer J	416,038	45,557	28,410	490,005	10.3
3	Customer F	235,003	5,928	39,602	280,533	5.9
4	Customer E	46,199	156,946	34,358	237,503	5.0
5	Customer H	190,016	—	3,662	193,678	4.0
	Total:	2,125,879	418,076	242,960	2,786,915	58.4

Our revenue generated from projects under service concession agreements is apportioned into construction revenue, operation revenue and finance income (if the concession provides guaranteed revenue stream). During the Track Record Period, the vast majority of our revenue contributed by our five largest customers were attributed to construction revenue. Construction revenue is non-recurring

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in nature, and will depend on the number and scale of projects under construction during the relevant period. For example, (i) for the years ended December 31, 2016, 2017 and 2018, our construction revenue attributed to Customer A were HK\$408.6 million, HK\$44.8 million and HK\$1,238.6 million, respectively, (ii) for the years ended December 31, 2016, our construction revenue attributed to Customer B was HK\$255.7 million, (iii) for the years ended December 31, 2017 and 2018, our construction revenue attributed to Customer F were HK\$434.6 million and HK\$235.0 million, respectively, (iv) for the year ended December 31, 2017, our construction revenue attributed to Customer G was HK\$342.4 million, and (v) for the year ended December 31, 2018, our construction revenue attributed to Customer J was HK\$416.0 million, a result of which led to material fluctuations in its total transaction amount. For further details on the recognition of construction revenue, see “Financial Information — Description of Selected Income Statement Line Items — Revenue”. Operation revenue and finance income for each project are generally relatively stable throughout the operation period of such project, and hence the total operation revenue and finance income of the Group may vary depending on the total number of projects in operation.

All of our five largest customers are Independent Third Parties, and none of our Directors, their respective close associates or any of our Shareholders holding more than 5% of the issued share capital of our Company as at the Latest Practicable Date, to the knowledge of our Directors, owned any interest in any of our five largest customers during the Track Record Period and up to the Latest Practicable Date. None of our customers was our suppliers during the Track Record Period. For additional information on our counterparty risk, please see “Risk Factors — Risks Relating to Our Business and Industry — We are exposed to credit and liquidity risks with respect to the payment structure under our project model agreements and payment delays or defaults by our customers as well as any failure to recoup construction costs due to failure to receive sufficient payments may negatively affect our business, financial condition, results of operations and prospects.”

### Pricing

Tariffs for wastewater treatment are based on the terms of our service concession agreements while tariffs for our other projects are based on a reasonable return calculated by adopting a cash flow analysis performed based on the financial model prepared as required under tender documents relating to the projects. Tariffs may be increased in certain circumstances as provided in the service concession agreements or under applicable PRC law and regulation. See “Business — Key Terms of Our Service Concession Arrangements — Tariffs and Settlements (applicable to the BOT and TOT project models)” and “Regulation Overview — Pricing”. The average tariff per tonne (inclusive of VAT) for our wastewater treatment under service concession arrangements projects for the years ended December 31, 2016, 2017 and 2018 were RMB1.30, RMB1.61 and RMB1.88, respectively. We set out below details of our pricing of our main services:

- **Wastewater Treatment:** The tariff for our wastewater treatment services is usually set and calculated by the relevant local governments according to formulas set out in the relevant service concession agreements, taking into account investment amounts, construction

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costs, operational costs, amount of wastewater and/or sludge treated during the previous pricing period and reasonable returns on investment. The service concession agreements generally set out a guaranteed minimum volume of wastewater and/or sludge to be treated and a guaranteed minimum unit price. See “Business — Our Projects under Service Concession Arrangements” for details of our service concession arrangements and guaranteed minimum treatment volumes.

- **Water Environment Treatment:** The pricing mechanism for our water environment treatment fees is based on a combination of tariffs taking into account the maximum designed capacity and the operational efficiency of the project.
- **Others — Water Supply:** The tariff for our water supply services is determined by the local government and calculated in accordance with the volume of tap water consumed by the end users and multiplied by the unit price under the relevant laws and regulations, determined by taking into account our operational costs. Under the service concession agreement, we can apply for a price increase in the event our operational costs increase due to changing market conditions. Pursuant to the Notice of Establishment of the Tiered Water Price Structure for Urban Residents, usage volume for residential and non-residential users will be measured on an annual basis on a tiered pricing structure. See “Business — Our Projects Under Service Concession Arrangements” for further details.
- **Others — Reusable Water:** A contract price is negotiated between us and our customers, taking into account the treatment costs associated with the proposed uses of the reusable water and the cost of its distribution. See “Business — Our Projects Under Service Concession Arrangements” for further details.
- **Others — Wastewater Heat Source Pump:** The tariff for our wastewater heat source pump services is calculated by adopting a cash flow analysis performed based on the financial model prepared as required under the tender documents relating to the projects.

### *Unit Prices/Tariff*

The following tables set out the average unit prices/tariff of our wastewater treatment under our service concession arrangement projects during the Track Record Period:

	For the year ended December 31,		
	2016	2017	2018
	RMB / tonne, including VAT		
Wastewater Treatment (including sludge treatment and disposal)	1.30	1.61	1.88
Reusable Water	4.23	3.53	3.53

Note: See “Business — Our Projects under Service Concession Arrangements” for details of our service concession arrangements and guaranteed minimum treatment volumes. We generally adjust our tariffs every two years. For details, see “Business — Key Terms of our Service Concession Agreements — Tariff Adjustment (applicable to BOT and TOT project models)”.

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For our water environment treatment Projects, the tariffs also comprise of fees based on the extent to which the facility meets the relevant contractual requirements and expected return. For our wastewater heat source pump projects, we charge our customers based on unit price. For the years ended December 31, 2016, 2017 and 2018, the average tariff per square meter (inclusive of VAT) for our wastewater heat source pump projects was RMB32.33, RMB32.33 and RMB32.33, respectively. The tariff for our water supply projects will be determined once the construction for our water supply plants are complete, and the revenue recorded in relation to these projects during the Track Record Period represents only their construction revenue.

### SUPPLIERS

Our principal suppliers during the Track Record Period were construction contractors who constructed our treatment and supply plants, design institutes that designed our treatment plants and supply plants, equipment suppliers, suppliers of raw materials, such as wastewater treatment chemicals, and electricity suppliers who provided electricity to our facilities which we usually obtain from the local suppliers in the PRC. Our principal raw materials during the Track Record Period were wastewater treatment chemicals and other equipment and replacement parts used during the course the maintenance of our plants.

For the years ended December 31, 2016, 2017 and 2018, our five largest suppliers accounted for approximately 13.4%, 13.8% and 19.9%, respectively, of our total purchase costs and purchases from our largest suppliers accounted for approximately 5.0%, 5.1% and 8.7% of our total purchase costs, respectively, during the same period. We have been working with our five largest suppliers for more than a year. Our five largest suppliers typically offer us credit terms of up to 60 days and payments are generally made by us by inter-bank remittance. All of our five largest suppliers during the Track Record Period were Independent Third Parties, and none of our Directors, their respective close associates or any of our Shareholders holding more than 5% of the issued share capital of our Company as at the Latest Practicable Date, to the knowledge of our Directors, owned any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date. None of our suppliers was our customers during the Track Record Period. During the Track Record Period, we did not enter into any long-term agreements with our suppliers.

During the Track Record Period, we entered into hazardous waste treatment and disposal agreements with subsidiaries of China Everbright Greentech Limited with respect to the treatment and disposal of sludge, waste mechanic oil and other industrial hazardous waste produced as a by-product of the wastewater treatment business of our operating subsidiaries. For details, see “Relationship with Our Controlling Shareholder — Independence from Our Controlling Shareholder — Operational Independence” and “Connected Transactions — Continuing Connected Transactions Exempt from the Independent Shareholders’ Approval Requirement — Transactions in relation to provision of sludge treatment and hazardous waste treatment services”.

We generally select suppliers through tenders. We adopt a centralized procurement policy and have created a catalogue of eligible suppliers. Each of our suppliers is required to undergo a supplier

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approval process before we make any purchases. The eligibility of a supplier is determined after due diligence based on factors such as their technical qualifications, expertise and experience, and we also consider their track record and their financial condition. We require all of our independent contractors and design institutes to possess the requisite qualifications for undertaking the work for which they are commissioned. For our suppliers other than contractors and design institutes, we will assess their reputation and financial condition, quality of materials and services, pricing and track record.

For our tender procedure, we have established management systems applicable to tenders and bidding. We will prepare tender work plans and tender documents. Our tender documents normally contain important information about the relevant project and bidding process, including: (i) instructions for bidding; (ii) format of bidding documents; (iii) technical conditions, specifications and drawings (if applicable); (iv) contract terms, including general terms and particular terms; (v) performance guarantees and bonds; and (vi) bid evaluation methods.

For our BOT projects, we enter into construction contracts with third-party contractor for the construction of the plant facilities. These third-party contractors are responsible for completing the construction work in accordance with our design and applicable national and industry standards, and will normally procure the raw materials and equipment necessary for the construction work. In terms of payment, we pay our contractors in installments based on the percentage of completion of the construction work. We normally pay 80% of the consideration during the construction phase, and up to 95% of the consideration after completion of the final acceptance test. A certain proportion of the consideration is usually retained by us during the warranty period, which lasts one to two years depending on the terms of the relevant contracts, which will be released upon the expiration of the warranty period. These third-party contractors bear all legal liabilities and economic losses arising from any accident caused by their insufficient safety measures during the construction phase.

We usually engage third-party design institutes to help design our BOT projects. They are generally responsible for completing designs in accordance with the relevant national and industry standards. In terms of payment, we normally pay up to 95% of the consideration for their services after executing the design contracts in installments in accordance with the percentage of completion of the design. We normally retain up to 5% of the consideration as a quality guarantee deposit. Upon acceptance of the constructed projects, we will settle the remaining proportion of the consideration with the design institutes. In June 2018, we acquired the Xuzhou Design Institute, which we intend to undertake some of the designs for our new projects.

We source our equipment and raw materials primarily from individual third party suppliers. For equipment, we generally enter into purchase agreements with these suppliers on an as-needed basis. These suppliers are typically responsible for transporting, installing and testing the equipment after our purchase. We make payment to these suppliers in installments and generally keep a certain proportion of the total consideration as a warranty, and will pay the remaining amount to these suppliers after the expiration of the warranty period. For raw materials, such as chemicals, we source our suppliers through a tender process based on our internal policy on raw material procurement and centralized chemical procurement. We typically enter into written procurement agreements with the

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suppliers. The supply agreements typically specify the type of raw materials the suppliers are required to provide to us. The payment for the raw materials is generally calculated based on a fixed unit price and the weight purchased.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disputes with any of them and did not experience any suspensions or delays of operation as a result of their failure to act in accordance with our agreements with them. We have access to alternative suppliers who offer similar materials with terms comparable to our existing suppliers. To mitigate the risks associated with any reliance on our major suppliers, we periodically seek potential alternative suppliers in the PRC and obtain quotes from such suppliers with the view to keeping in contact with potential suppliers who can offer favorable pricing and delivery terms. We believe that a ready pool of potential alternative suppliers will allow us to identify a replacement in a timely manner in the event that we need to replace any of our existing suppliers. During the Track Record Period, we had not experienced any material difficulties in obtaining any construction or design services, raw materials or equipment for our business operations.

### INVENTORY

Our inventory consists primarily of raw materials, including treatment chemicals, equipment maintenance consumables, packaging materials and other raw materials related to wastewater treatment. We conduct regular inspections of our inventory levels to reduce inventory risks and to maintain appropriate levels of raw materials for our business operation. For more details, see “Financial Information — Liquidity and Capital Resources — Inventories”. In order to ensure the normal operation of our treatment plants, we gradually established an inventory management system to properly determine the minimum inventories of chemicals or consumable equipment accessories based on the amount of such chemicals or accessories to be used and the relevant supplier’s conditions. We also plan to incorporate the system which determines the minimum amount of spare parts to be stored into our intelligent water system.

### RAW MATERIALS AND EQUIPMENT

During the Track Record Period, the main raw materials for our operations included chemicals (such as polyacrylamide, polyaluminium chloride and disinfectant) we used in our wastewater treatment and water environment treatment projects. In addition, equipment and spare parts such as water pumps, agitators, grid machines, aeration machines, blowers, mud scrapers, dehydrators, water decanters, electrical cabinets, laboratory equipment, transportation equipment and loaders, were all used in our operations as well as for maintenance.

### COMPETITION

We operate in a highly competitive industry. We compete primarily with state-owned, privately-owned and foreign companies in the PRC, including new entrants to the market, some of which may have a lower cost structure, such as lower capital expenditures or financing costs, or

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greater access to customers than us. They may also possess more advanced wastewater treatment techniques than us or have better access to capital than we do. For more details, please see “Industry Overview — China’s Municipal Wastewater Treatment Industry — Entry Barriers of Municipal Wastewater Treatment Market in China”.

In addition, when we enter into a new market, we may face intense competition from companies with an established presence in the relevant geographical area and from other companies with similar expansion targets. Other factors that could affect our competitiveness include, among others, the quality of our project portfolio, project sourcing ability, operation track record, government and customer relationships, operational and management experience and expertise, research and development capabilities, geographic coverage, brand recognition and capital resources. We cannot assure you that we will be able to successfully compete to expand into other parts of the PRC or overseas. For details please see “Risk Factors — Risks Relating to our Business and Industry — Our inability to maintain our competitiveness could materially and adversely affect our business, financial condition and results of operations. As a result, we may not be able to successfully acquire, secure, develop and operate new projects to maintain and grow our business.”.

### INTELLECTUAL PROPERTY

We recognize the importance of protecting and enforcing our intellectual property rights. We had 126 registered patents as at the Latest Practicable Date in relation to a variety of technologies, including a sewer deodorization device, a biological deodorization device, a sludge drying device and a sludge compression machine, etc., and we achieved a series of technological accomplishments in areas such as biological deodorization system, low-temperature sludge drying, biological aerated filter, high-efficiency sedimentation tank, ozone catalytic oxidation, non-point source pollution purification treatment, and rainwater treatment systems. We have applied the above technologies to over 20 wastewater treatment projects, which have achieved positive results and have enhanced the technological efficiency and quality of our projects.

In addition to patents, we also rely on trademarks to protect our intellectual property rights. As at the Latest Practicable Date, we held five registered trademarks in the PRC. In general, we engaged patent agents to prepare and submit our patent applications. As at the Latest Practicable Date, our Company was in the process of registering 56 patents. We use the “Everbright” brand name and trademarks pursuant to licensing arrangements between us and China Everbright Group and CE Hong Kong. We market our services primarily under the “Everbright” brand name and related trademarks, which are owned by China Everbright Group. We consider the “Everbright” brand name and the related trademark to be important to our business because we believe they can enhance the awareness and recognition of our businesses among many existing or potential customers. For further details, please see “Appendix V — Statutory and General Information — B. Further Information about the Business of Our Group — 3. Intellectual property rights”.

We were not involved in any litigation or legal proceedings for violation of intellectual property rights of third parties, nor are we aware of any infringement of our intellectual property during the Track Record Period and up to the Latest Practicable Date.

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### RESEARCH AND DEVELOPMENT

We believe that we have strong research and development capabilities, which have enhanced our ability to design and construct wastewater treatment and other integrated water environment management solutions. We have also established a technology center, which focuses on the research of applied technologies, and we continuously improved our core technology strength through various means such as in-house research and development, technology import and academic-industry collaborations and acquired the Xuzhou Design Institute in June 2018 which focuses on the survey, mapping, design and consultation of projects relating to roads, bridges, tunnels, water supply, drainage, heat, gas, electricity, construction, landscape, sanitation, highways and water conservancy, as well as the consultation of project costs, review of construction drawings, bidding agency and project management. Upon completion of the acquisition of the Xuzhou Design Institute, it combined with our technology center and became our new Technology and Design Center. As at the Latest Practicable Date, we had 110 research and development personnel, among which five have obtained a doctorate degree and over 30 have over ten years of experience relating to the industry. During the Track Record Period, we collaborated with renowned universities in the PRC, including Tsinghua University, Tongji University and Chongqing University, in our development projects, with the aim of developing new technologies that can be applied to the water industry in China, as well as to support our continued business development and operational efficiency.

For the years ended December 31, 2016, 2017 and 2018, our research and development expenses were HK\$12.2 million, HK\$20.9 million and HK\$46.5 million, respectively, accounting for 4.1%, 7.3% and 10.6% of our administrative and other expenses.

As a result of our efforts in technology development, we had a total of 126 registered patents as at the Latest Practicable Date in relation to a variety of technologies, including a biological deodorization device, a sludge drying device and a sludge compression machine, etc., and we achieved a series of technological accomplishments in areas such as biological deodorization systems, low-temperature sludge drying, biological aerated filter, high-efficiency sedimentation tank, ozone catalytic oxidation, non-point source pollution purification treatment, and rainwater treatment systems. We have applied the above technologies to over 20 wastewater treatment projects, which have enhanced the technological efficiency and quality of our projects.

Further, in February 2018, in order to enhance our research and development capabilities, we, together with RBH Reinhold Brenner Holding GmbH, an environment protection company in Germany, incorporated E+B Umwelttechnik GmbH, which will focus on research and development, engineering services, technology transfer, and equipment sale, procurement, installation and commissioning in areas related to water business, as well as acting as an engineering, procurement, and construction contractor for environmental projects. As at the Latest Practicable Date, E+B Umwelttechnik GmbH was focusing on the research and development of technologies relating to the investment, design, construction and management of municipal and industrial wastewater treatment projects, sludge treatment projects, desalination projects, including the third generation biological



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aerated filter, SL inclined-tube sedimentation tank, membrane fouling, etc.. We believe this joint venture will also help us to develop overseas business channels, enhance international exchanges and collaboration, and acquire talent and technologies from overseas, in order to promote our core technologies and explore new opportunities for growth.

The following are a few of our significant research and development projects which we currently undertake:

- Heterogeneous Catalytic Ozonation of Non-biodegradable Leachate 2018 (2018年深圳市科創委技術攻關項目《難降解垃圾滲濾液非均相催化臭氧化處理關鍵技術研發》)

By combining laboratory research with on-site technology application, this project conducts an analysis of the constituents of discharged water upon treatment of refractory waste leachate in Shenzhen based on the pollution traits regarding discharge water upon treatment of refractory landfill leachate of different water quality and the actual situation about satisfaction of discharge standards upon treatment of refractory waste leachate in Shenzhen. Its major technical points for innovative research and development include:

- (1) Selecting advanced heterogeneous catalytic ozonation treatment techniques for field pilot-scale test based on the characteristic analysis and biodegradability assessment of discharge water after being treated by waste leachate biochemical system in Shenzhen;
- (2) Manufacturing a highly efficient, inexpensive and stable ozone catalyst, which would be produced on a larger scale and applied for the first time in the pilot-scale test regarding the advanced treatment of waste leachate in Shenzhen on the basis that the laboratory has optimized manufacturing conditions and test results;
- (3) Developing the techniques and equipment for production of ozone catalyst, and their respective pilot-scale test;
- (4) Creating a high-efficiency reactor suitable for ozone to catalyze and oxidize refractory organic pollutants in accordance with the velocity theory of multi-phase flow region; and
- (5) Developing an advanced waste leachate treatment technique for ozone catalytic oxidation and biochemical unit and a complete set of pilot-scale test equipment, and developing a heterogeneous catalytic ozonation technique (including pilot-scale testing device).

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- Development and application of an intelligent system for wastewater treatment 2017 (2017年重慶市重點產業共性關鍵技術創新專項重點研發項目《污水處理中智能控制系統設備的開發及應用》)

Through an analysis of the data from wastewater treatment plants in Chongqing, this project aims to develop an effective intelligent control system to improve efficiency. Its research scope includes:

- (1) The operational conditions and demand for wastewater treatment plants;
  - (2) The application of a mathematical model in intelligent control of the wastewater treatment process;
  - (3) The development and application of auxiliary equipment for intelligent control system;
  - (4) The development and application of a cloud computing platform for wastewater treatment plant; and
  - (5) The coordination and matching between the intelligent control system and other operating units.
- Key Technological Research on nbsCOD in Advanced Treatment of Wastewater Process by Using Ozone Catalytic Oxidation Technology 2017 (2017年山東省淄博市科技發展項目《污水深度處理中臭氧催化氧化nbsCOD的關鍵技術研究》)

The purpose for this project is to manufacture an ozone oxidation catalyst to enhance the oxidizability of ozone and lower project investment cost and operation cost. Its content includes:

- (1) Manufacturing a highly cost-effective ozone oxidation catalyst;
- (2) Devising a pilot-scale ozone catalytic oxidation reactor with low running cost and reliable, stable operation, which enables ozone to catalyze and oxidize nbsCOD during advanced wastewater treatment at a relatively lower cost;
- (3) Through experimentation, adding a tiny amount of ozone to alter the nbsCOD molecular structure of wastewater, so its biodegradability can be improved in order to create conditions for the subsequent biochemical treatment and thus significantly remove nbsCOD at a low cost; and
- (4) Establishing a comprehensive system of basic experiment data and experimental methods to cope with a variety of water quality conditions.

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### QUALITY CONTROL

We place high emphasis on quality assurance in our operations as we believe that quality design and construction is instrumental to maintaining our reputation and success, as well as the long-term stable operation of our projects that meet the applicable discharge standards.

We conform strictly to the quality standards required by the PRC regulatory authorities. We also implement a quality assurance system and institute quality control procedures throughout our treatment process in order to ensure that the relevant treated output meets the relevant quality assurance requirements. We have consistently enhanced our operation regulation and management in accordance with the discharge standards set out in the agreements we enter into with the local governments in respect of the effluent water produced by our wastewater treatment plants. We have obtained ISO quality management system certificates for our projects.

We evaluate our quality assurance protocol from time to time to determine whether we have been effective in ensuring that our wastewater treatment systems are of good quality. Where necessary, we would revise and improve our protocol. As part of our evaluation process, we also evaluate our work procedures and formulate corrective measures to rectify errors during production and preventive measures to ensure that errors are not repeated in future production.

Our operation processes and quality control processes are set out below:

(i) *Function allocation during the Operation Process*

The operational management department is responsible for establishing, assigning and implementing the checks and statistics.

Each wastewater treatment plant operates according to the monthly or annual plan. It is also responsible for the entire wastewater treatment process and process regulation according to the stipulated water quality standards and quantity of water treated, as well as the change of environment. It also ensures that the effluent reaches the standard and is discharged. The operational management department is responsible for the operation and management of our wastewater treatment plants, product planning management, operational cost management and the collection of operating data.

The production technology department is responsible for the maintenance of the electrical, automation, instrumentation and monitoring equipment at our plants. It is responsible for the procurement and management of spare parts for our equipment, organizing and coordinating major repairs and outsourcing the maintenance of equipment at each wastewater treatment plant and relevant technical management work.

The laboratory is responsible for collecting and testing the water samples, relevant operating parameters in the operation process, sludge samples, and the quality of the chemicals procured.

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(ii) *Operation Control Procedure*

Whenever a wastewater treatment plant undergoes operating plan adjustments, changes in process parameters, changes in operating mode, disruptions to the electricity feed and other production schedule, the various wastewater treatment plant engineers are responsible for the coordination, scheduling and arrangements. After approval by the plant director, the staff sends the “Production Scheduling Instructions” to the relevant departments for implementation, and monitors the implementation of the instructions. Subsequently, the staff explains the situation to the plant director and reports on the implementation and actual operation based on the instructions.

The department is designated to implement the process of the sewage treatment equipment operations and is responsible for the operation of the equipment.

The operations team at each plant is responsible for the repairs and maintenance of the production equipment in the relevant plant, and the daily maintenance work of the electrical, automation and monitoring of instruments. Each plant works with the production technology department to handle the electrical, automation, monitoring and instrument maintenance work.

The laboratory center receives water samples and sludge samples sent by each wastewater treatment plant on a daily basis for inspection, and feedback to each wastewater treatment plant the same day. The wastewater treatment plants adjust the treatment process parameters based on the laboratory results in a timely manner to ensure that the wastewater treatment process meets the relevant standard stipulated in our concession agreement.

We may face administrative penalties or fines if we do not meet the quality standards required by the PRC regulatory authorities. For details, please see “Risk Factors — Failure to appropriately treat wastewater, sludge and treated water from wastewater treatment plants adequately or supply tap water meeting the required standards due to excessive pollution levels in the incoming wastewater, sludge, treated water from wastewater treatment plants or raw water from water sources or for any other reason, may subject us to fines and/or government ordered shutdowns of our plants, and could damage our plants and reputation”.

## INSURANCE

We take out insurance policies to insure the construction and operation of each project in which we invest, including the following:

- (i) **During construction:** Each of our project companies, as the owner of each project, will take out insurance policies for risks relating to the construction and installation work as

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well as for third-party liabilities in the amounts of the contract value after entering into the relevant contracts for construction. We also require our contractors to take out life and accident insurance policies for their own on-site workers. The coverage will generally commence from the beginning of the engineering and construction process and end upon the completion of construction of the relevant plant.

- (ii) **During project operation:** Each project company will buy property all risks insurance and machinery breakdown insurance, business interruption insurance, third-party liability insurance and employer liability insurance as the owner. For our reusable water projects, we also take out product quality insurance.

During the Track Record Period, we entered into certain insurance agreements with Sun Life Everbright Life Insurance Co., Ltd. For details, see “Connected Transactions — Fully Exempted Continuing Connected Transaction — Transactions in relation to insurance services”. We cannot assure you that our insurance can cover all risks related to our business and operations. For details, see “Risk Factors — We may not have adequate insurance to cover the risks related to our business and operations”.

## RISK MANAGEMENT AND INTERNAL CONTROL

Our internal controls and management systems are designed to provide reasonable, but not absolute assurance to the integrity and reliability of the financial information and to safeguard and maintain the accountability of the assets. While no cost effective internal control system can provide absolute assurance against loss or misstatement, the Audit Committee, with the participation of the Board, has reviewed the adequacy of our internal controls and systems to ensure that they are designed to provide reasonable assurance that assets are safeguarded, operational controls are in place, business risks are suitably managed, proper accounting records are maintained and the integrity of financial information used for business and publication is preserved.

Our internal auditors conduct an annual review of the adequacy and effectiveness of our Group’s key internal controls including financial, operational, compliance, information technology and sustainability risks management. The external auditors during the conduct of their normal audit procedures may also report on matters relating to our internal controls. Any material non-compliance and recommendation for improvements are reported to the Audit Committee. The Audit Committee also reviews and continues to monitor the adequacy and effectiveness of the actions taken by our management on the recommendations made by the internal and external auditors in this respect.

Based on the work performed by our internal and external auditors, the Audit Committee reviews the findings from the internal and external auditors on our internal controls and our management’s responses to the auditors’ recommendations for improvement to the Group’s internal controls and discussions with the auditors and our management. We have appointed external PRC legal advisor to facilitate us to assess and identify the key risks and the related key controls established by us. The Audit Committee will review the needs for the engagement of such external adviser in

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reviewing our internal control system on an annual basis, and if needed, will make such recommendation to the Board.

We engaged an independent external consulting firm as our independent internal control consultant in April 2018. Pursuant to such engagement, the internal control consultant has conducted a review of the internal control measures relating to our business operations with a view to identifying irregularities and furnishing internal control recommendations on remedial actions in order to enhance our internal control system generally.

The initial review process took place in April 2018 with findings identified and recommendations provided by the internal control consultant. The internal control consultant carried out follow-up reviews and confirmed that our Group has adopted the major recommendations and accordingly taken corrective actions to address its findings.

In addition, we have implemented two major management systems to address risks in different aspects of the Company, namely the Risk Management System and the ESHS Management System. The Risk Management System provides the procedures for risk identification and assessment, risk register compilation, risk strategy development, risk event management, risk event reporting, and the review and audit of such system. We update our risk register on a regular basis. Any material findings on the risk management will be escalated to the Audit Committee and the Board. The ESHS Management System provides a series of standard operating procedures to address environmental, safety, health and social responsibility risks.

The risk management is subject to the Audit Committee. Nonetheless, we have set up a Risk Assessment Committee to assist the Management Committee in making decisions on new investment projects. In relation to the investment project which is subject to the Board's approval, the Risk Assessment Committee's findings and recommendations will also be submitted to the Board for consideration.

Our Legal and Risk Management Department is responsible for summarizing the risk management results of each department and regional management center and assessing the potential material risks confronting our Group according to the risk management program of our Group, formulating and implementing the risk management plan for the next year. The Legal and Risk Management Department is also responsible for maintaining and updating our register of risks.

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### EMPLOYEES

The table below sets out the number of employees by job functions as at the Latest Practicable Date:

	<u>Number of Employees</u>	<u>Percentage of Total Employees</u>
Management	136	6%
Operation	1,554	74%
Administration	100	5%
Finance	88	4%
Human Resources	34	2%
Others	178	9%
<b>Total</b>	<u>2,090</u>	<u>100.0%</u>

As at the Latest Practicable Date, we had 2,080 employees based in the PRC, 6 based in Hong Kong and 4 based in Singapore. We enter into a standard employment contract with each of our full-time employees. Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the years ended December 31, 2016, 2017 and 2018, our staff costs were approximately HK\$243.5 million, HK\$235.9 million and HK\$283.2 million, respectively.

In accordance with applicable PRC regulations on social insurance and housing funds, we are required to make contributions to social security fund and housing provident fund for our employees in the PRC in accordance with applicable PRC laws and regulations. For our Singapore based employees, we are required to make contributions to mandatory provident fund schemes.

We recruit our employees based on our business needs. Our human resources department recruits employees based on our needs according to our business development plan or specific requests from other departments.

We emphasize on the development of our employees and have implemented a training program for our employees. We provide regular and ad-hoc training programs on the basis of feedback from employees and analysis of the requirements of the technical personnel in each of our Group Companies. The training programs include new employee training, relevant knowledge training for management personnel, and special training for professional technical personnel and skilled personnel.

The training programs for professional technical personnel and skilled personnel include sewage treatment operator training, sewage treatment technical management personnel training, and post training for water quality inspection personnel of the urban drainage industry, ground operation training for bridge crane drivers, stationary pressure vessel operation training, professional training for hydrogen sulfide poisoning precaution; training for dangerous chemical care, safety administrator training, high-voltage and low-voltage electrician training, in-factory motor vehicle driving training, wastewater monitoring training; and sanitary pressure vessel operation training.

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### PROPERTIES

According to our audited consolidated statements of financial position in the accountants' report set out in Appendix I to this Prospectus, the total carrying amount of our buildings under property, plant and equipment and our total assets as of December 31, 2018 were HK\$78.5 million and HK\$19,584.4 million, respectively. Furthermore, as of December 31, 2018 (i) no single property interest that formed part of our property activities (as defined in rule 5.01 of the Hong Kong Listing Rules) and (ii) no single property interest that formed part of our non-property activities had a carrying amount of 15% or more of our total assets.

Accordingly, we are not required by Chapter 5 of the Hong Kong Listing Rules to value or include in this Prospectus any valuation report of our property interests. Furthermore, pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this Prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Cap. 32 Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Cap. 32 Companies (WUMP) Ordinance, which requires a valuation report with respect to all our Company's interests in land or buildings.

As of the Latest Practicable Date, all the material properties we occupy and use relate to our projects under BOT and TOT project models pursuant to service concession arrangements which were awarded by Government Grantors.

### **Properties Occupied by Us Pursuant to Service Concession Arrangements**

As of the Latest Practicable Date, we had 110 service concession arrangement projects that involve the use and occupation of land and these service concession arrangement projects comprise 78 parcels of land. Further details of the property interests relating to our service concession arrangement projects are set out below.

#### *Land Use Right Certificates*

Our service concession arrangement projects that involve the use and occupation of land are categorized into the following three main categories:

- (i) **Type I Projects** – The service concession arrangement projects in respect of which land use right certificates of the relevant lands are held by us;
- (ii) **Type II Projects** – The service concession arrangement projects in respect of which the land use right certificates have been obtained but not under our name; and
- (iii) **Type III Projects** – The service concession arrangement projects in respect of which no currently valid land use right certificates have been obtained.



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The Type II Projects and Type III Projects are further sub-categorized into three and two different types, respectively, with reference to the basis on which we are entitled to occupy and use the lands. The list of different types of projects is set out below:

	<u>Project Type</u>	<u>Status of the land use rights certificates for the relevant property</u>	<u>Total number of projects as at the Latest Practicable Date</u>	<u>Total number of parcels of land concerned<sup>(Note 1)</sup></u>
(i)	Type I Projects	The service concession arrangement projects in respect of which land use right certificates for the relevant land are held by us.	62	40
(ii)	Type II A Projects	The service concession arrangement projects in respect of which the land use right certificates are held by the Government Grantors or Government Functional Authorities.	18	13
(iii)	Type II B Projects	The service concession arrangement projects in respect of which the land use right certificates are held by other Government Subordinate Enterprises, and such holders have issued written confirmations to us in relation to our right to occupy and use the relevant land.	8	6
(iv)	Type II C Projects	The service concession arrangement projects in respect of which the land use right certificates are held by a third party other than us, and such third party has issued written confirmation to us in relation to our rights to occupy and use the relevant land.	1	1
(v)	Type III A Projects	For those service concession arrangement projects, no valid land use right certificates have been obtained yet, but based on the written reply, approvals or permits (such as pre-review opinion for construction project land, approval for allocation or similar permits issued by other government authorities entitled to permit use of lands and construction land use planning permits or similar permits) issued by the local government or its functional department and the	20	17

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Project Type	Status of the land use rights certificates for the relevant property	Total number of projects as at the Latest Practicable Date	Total number of parcels of land concerned <sup>(Note 1)</sup>
	arrangement of the service concession arrangements, we can occupy and use such land for concession projects construction.		
(vi) Type III B Projects	For those service concession arrangement projects, no valid land use right certificates have been obtained yet, but based on the service concession arrangements, the government authorized party has contractual obligations to coordinate with the third party holding the land to provide land for us.	1	1
	Total number of projects	110	78

*Notes:*

- The difference in the numbers of projects and parcels of land is attributable to the manner in which parcels of land are identified for specific projects, and this varies depending on whether land use right certificates have been issued for specific projects. In some cases, the number of parcels of land corresponds to the number of land use right certificates. For example, the land used for Qingdao Waste Water Treatment Project (Maidao Plant) Upgrading (青島污水處理項目(麥島廠) 提標改造) has 2 land use right certificates, thus there are 2 parcels of land for this project. In other cases, multiple projects occupy land under the same land use right certificate, such as Ji'nan Licheng Waste Water Treatment Project (Plant 3) Phase I (濟南曆城污水處理項目(三廠) 一期), Ji'nan Licheng Waste Water Treatment Project (Plant 3) Phase II (濟南曆城污水處理項目(三廠) 二期) and Jinan Licheng Reusable Water Project (濟南曆城中水項目). In this case, there is only one parcel of land for these three projects.

### *Type I Projects*

As of the Latest Practicable Date, we have 62 Type I Projects comprising 40 parcels of land. For these 62 Type I Projects, we hold the relevant land use rights certificates. As advised by our PRC Legal Advisor, we are entitled to legally occupy and use the land associated with these Type I Projects by virtue of the land use rights certificates.

### *Type II Projects*

As of the Latest Practicable Date, we have 27 Type II Projects comprising 20 parcels of land, which land use right certificates are held by parties other than us. We set forth below details of our Type II A, II B and II C Projects.

#### Type II A Projects

As advised by our PRC Legal Advisor, the Government Grantors or other government functional departments have obtained the land use rights for the relevant land by allocation according

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to the provisions of the Land Administration Law, to use for urban infrastructure and public welfare. The service concession projects we engage in are in the infrastructure and utilities sectors such as environmental protection, which are in line with the allocated land use. At the same time, according to the provisions of the Law on Organization of Local People's Congresses at Different Levels and Local People's Governments at Different Levels of the People's Republic of China (《中華人民共和國地方各級人民代表大會和地方各級人民政府組織法》), the holders of the relevant land use right certificates are the government functional departments under the unified leadership of such local government, and the local government has the right to instruct them to provide the land which they have land use rights to us for service concession projects.

According to the provisions of the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) and the Measures for the Administration on the Concession of Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》), the service concession contracts are entered into between Government Grantors (as government subordinate functional departments) and us in accordance with the authorization from People's governments at or above county level. Therefore, based on the service concession arrangements, we are entitled to legally occupy and use the allocated land associated with Type II A Projects for the construction and operation of service concession projects during the concession periods.

### Type II B Projects

As advised by our PRC legal advisor, the Government Subordinate Enterprises have legally obtained the legal use rights for relevant land by allocation according to the provisions of the Land Administration Law, to use for urban infrastructure and public welfare. The service concession projects we engage in are in the infrastructure and utilities sectors such as environmental protection, which are in line with the allocated land use. At the same time, the holders of the relevant land use right certificates are the Government Subordinate Enterprises, which are enterprises subordinate to the local government (with the local governments as the sole shareholder or controlling shareholder or actual controller of such subordinate enterprises). The local governments are entitled to request these Government Subordinate Enterprises to provide the land which they have land use rights to us for service concession projects.

According to the provisions of the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) and the Measures for the Administration on the Concession of Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》), the service concession contracts are entered into between Government Grantors (as government subordinate functional departments) and us in accordance with the authorization from People's governments at or above county level. At the same time, Government Subordinate Enterprises, as landholders, have issued written confirmations to us in relation to our rights to occupy and use the relevant land. Therefore, based on the service concession arrangements and the confirmation from landholders, we are entitled to legally occupy and use the allocated land associated with Type II B Projects for the construction and operation of service concession projects during the concession periods.

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### *Type II C Project*

As of the Latest Practicable Date, we had one Type II C Project (namely Lvshunkou District Sanjianpu Wastewater Treatment Project), the land use right of which is held by Dongda Group Co., Ltd. which was the original shareholder of the project company which held the project at the time it was incorporated. When we acquired Dalian Dongda in 2015, Dongda Group Co., Ltd. issued a written undertaking to us in relation to the land use right certificate, pursuant to which Dongda Group Co., Ltd. undertook that (i) it would use reasonable commercial endeavors to assist the project company to complete necessary procedures to transfer the land use rights certificate to us, (ii) the project company would enjoy exclusive right to the land and (iii) it would not claim any interests over the land. Therefore, based on the service concession arrangements and the undertaking from Dongda Group Co., Ltd., we are entitled to legally occupy and use the allocated land associated with this project for the construction and operation of service concession projects during the concession period.

### *Type III Projects*

As of the Latest Practicable Date, we have 21 Type III Projects comprising 18 parcels of lands, in respect of which no currently valid land use right certificates have been issued. Based on the relevant service concession arrangements, we can occupy and use the land associated with Type III Projects. We set forth below details of our Type III A and III B Projects.

#### Type III A Projects

As of the Latest Practicable Date, although we have not yet obtained valid land use right certificates in respect of Type III A Projects, the local government or its relevant functional departments (namely, the land administration department and planning department) have issued written reply, approvals or permits (such as pre-review opinion for construction project land, approval for allocation or similar permits issued by other government authorities entitled to permit the use of lands), and construction land use planning permits or similar permits confirming such lands can be used for project companies for service concession projects according to: (i) Article 2, Clause 5 of Regulations on the Implementation of the Land Administration Law (《土地管理法實施條例》), state-owned land with undetermined usage rights are to be registered in a registry set up by the local governments at or above the county level, which are responsible for the protection and administration of such land; (ii) Clause 53 of the Land Administration Law, if a construction unit needs to use state-owned land for construction of an approved project, it shall apply to the land administration department of the people's government at or above the county level that has the approval authority by presenting the relevant documents as required by laws and regulations. The said department shall examine the application before being submitted to the said people's government for approval; (iii) Clause 53 of the Land Administration Law, construction land for municipal infrastructure and public welfare undertakings obtained by way of administrative allocation, shall be approved by the people's government at or above the county level. Therefore, the local government and the land administration department are competent authorities to approve the land use, and based on the written reply,

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approvals or permits issued by such authorities and the service concession arrangements, we can occupy and use such land for concession projects construction.

### Type III B Project

As of the Latest Practicable Date, we have one Type III B Project (namely Dajinzhuang Wastewater Treatment Plant) in respect of which no valid land use right certificates have been obtained. However, pursuant to the service concession agreement of such project, the Government Grantor shall procure subordinate companies of the government (that is the main unit responsible for land expropriation and which will be the land use right certificate holder in the future) to provide land use rights of the land for the operation of the wastewater treatment plant by a signing a land use agreement with us, thereby ensuring that we have the right to legally and exclusively use the land for the purpose of the construction and operation of the wastewater treatment plant during the concession period. Pursuant to the service concession arrangement, the Government Grantor has the legal and contractual obligations to provide the land in respect of the service concession arrangement. If the Government Grantor fails to procure subordinate companies of the government to complete land expropriation subsequently or causes any third-party land owner to declare its right for such land and resulting in our inability to use such land, we have the right to require the Government Grantor to fulfill its contractual obligations, and take rectification action and/or compensate for damages according to the service concession arrangement.

The Dajinzhuang Wastewater Treatment Project as set out above is not material to us as a whole, as it contributed only approximately 11.9%, 0.79% and 0.30% of our total revenue for the years ended December 31, 2016, 2017 and 2018, respectively.

### *Our Contractual Rights under Service Concession Arrangements*

Under the relevant service concession arrangements, the Government Grantors have the obligations to provide the land to our Group or assist our Group to obtain the land required for the construction or operation of our service concession arrangement projects. Should our business operation be interrupted or suffer any losses due to not being able to use such land or should we be penalized by the relevant competent government authorities, we are entitled to demand the Government Grantor to fulfill its obligations under the service concession arrangements, to take remedial measures and/or to compensate us for any losses we have suffered.

### *Building Ownership Certificates*

Our service concession arrangement projects relating to the occupation and use of buildings are categorized in the same manner as the categorization of the land occupied and used by us, with the following three main categories:

- (i) For the service concession arrangement projects under Type I Projects in respect of which we have the land use rights, we have obtained building ownership certificates for 25 of

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our projects and we have rights to occupy and use the buildings related to these projects. We have not obtained building ownership certificates for 32 of our service concession projects. However, section 142 of the Property Law of the PRC stipulates that the ownership to the constructions, structures and their affiliated facilities which are constructed by the holder of construction land use right belongs to the holder of the construction land use right unless proven otherwise, whereby we have rights to occupy and use the buildings related to 25 service concession projects we constructed which we had not obtained building ownership certificates. Meanwhile, we can use buildings related to three service concession projects completed by third party which were obtained through acquisition under service concession arrangements. As the construction of the buildings has not been completed for the remaining five Type I Projects, building ownership certificates are not required to be obtained for those projects.

- (ii) For the service concession arrangement projects under Type II Projects in respect of which third parties other than us have the land use rights, the holder of the land use right certificate has obtained building ownership certificates for buildings related to three service concession projects, while we have not obtained building ownership certificates for buildings related to 22 service concession projects. Pursuant to the service concession arrangements, the third parties, as the holder of land use right certificate, confirmed that the relevant allocated land should be provided for us to legally occupy and use in the construction and operation of the concession projects within the concession period as authorized or required from local government, and therefore we can occupy and use the buildings constructed on the above-mentioned land. As the construction of the buildings has not been completed for the remaining two Type II Projects, building ownership certificates are not required to be obtained for those projects.
- (iii) For buildings related to 16 service concession arrangement projects under Type III Project in respect of which no valid building ownership certificates have been issued, we construct and operate facilities on these projects according to the service concession arrangements. As the construction of the buildings has not been completed for the remaining five Type III Projects, building ownership certificates are not required to be obtained for those projects.

### *Our Contractual Rights under Service Concession Arrangements*

As of the Latest Practicable Date, we had not been involved in any dispute or penalized by any competent government authorities due to lack of building ownership certificates. As advised by our PRC legal advisor, the Government Grantors in our service concession arrangement projects (including Type I Project, Type II Project and Type III Project) have the contractual obligations to ensure that we can occupy and use the relevant buildings situated on the lands used by our service concession arrangement projects during the concession period pursuant to the relevant service concession arrangements. Should our business operation be interrupted or suffer any losses due to not being able to use such buildings or should we be penalized by the relevant competent government authorities, we

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are entitled to demand the Government Grantor to fulfill its obligations under the service concession arrangements, to take remedial measures and/or to compensate us for any losses we have suffered.

### *Safety Conditions*

During the Track Record Period up to the Latest Practicable Date, we had not been penalized by any government authority over safety conditions concerns with respect to the buildings for which we have not obtained the relevant building ownership certificates or undertaken the completion inspection of construction work as required under the relevant local rules and regulations. Our Directors are of the view that such buildings are safe for occupation as we have completed all the relevant completion inspection and acceptance filing formalities except for 39 projects. We have either obtained written confirmations from the relevant government authorities, or our PRC legal advisor has conducted interviews with the relevant government authorities for 37 projects. For details of the 39 projects, see “— Non-compliance”. Based on the confirmations or interviews and the fact that we had not been penalized for not completing inspection and accepting filing formalities for any of the 39 projects during the Track Record Period, our Directors are of the view that the buildings in the 39 projects are safe for occupation.

### **Effect on us from Lands and Properties**

Our Directors are of the view that, based on the government confirmations where applicable, the relevant service concession arrangements and the advice of our PRC legal advisor, it is unlikely that we will be subject to penalties or other legal consequences, nor will our business operations or financial condition be materially or adversely affected, as a result of the aforesaid property issues. Based on the above, our Directors are also of the view that the land and buildings with defective titles as at the Latest Practicable Date were not collectively material to our business operations. As a result, no provision has been made in our consolidated financial statements.

### **Properties Owned by Us**

Save for those properties as set out in “— Properties Occupied by Us Pursuant to Service Concession Arrangements”, as at the Latest Practicable Date, we owned two properties in the PRC.

On September 14, 2001, Xuzhou Municipal Engineering Design Institute (徐州市市政設計院) entered into an agreement with Xuzhou City Municipal and Public Utilities Management Bureau (徐州市市政公用事業管理局), pursuant to which a total of RMB 3 million was contributed towards the purchase a two-story office building space which is located at 7<sup>th</sup> and 8<sup>th</sup> Floor, Chengjian Mansion, No.88 Huaihai West Road, Xuzhou (徐州市淮海西路88號(城建大廈)之七、八兩層) with a gross floor area of 1,161.5 square meters at the price of 2,582.867 per square meter from Xuzhou City Municipal and Public Utilities Management Bureau. As at the Latest Practicable Date, Xuzhou Municipal Engineering Design Institute had settled the purchase price, but could not apply for and obtain the corresponding building ownership certificate due to the part of the seller. However, Xuzhou Municipal Engineering Design Institute, as the holder of actual use right, has been exclusively occupying and using the above

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properties from the delivery of purchased properties to present. Pursuant to the Property Law of the PRC, the creation, change, transfer or elimination of the real right of a real property shall become effective after it is registered according to law; and it shall have no effect if it is not registered according to law, except it is otherwise prescribed by any law. As advised by our PRC legal advisor, Xuzhou Design Institute's failure to obtain the building ownership certificate of the property purchased by it would result in its inability to assert legal ownership over such property, but it would not affect its right to occupy, use and receive income on a continuous basis as a de facto occupant of the property. As the property is used as the office of Xuzhou Design Institute which is not material to our business operations, our PRC legal advisor is of the view that the failure to obtain the building ownership certificate will not have any material business or operational impact on our Group as a whole.

Shanghai Weiyang Construction Design Co., Ltd. (上海未央建設工程設計有限公司) (“**Shanghai Weiyang**”), one of our wholly-owned subsidiaries since our acquisition of Xuzhou Design Institute, held the Shanghai Building Ownership Certificate (Building Ownership Certificate number: Huang2012003564) (《上海市房地產權證》(房地產權證號:黃2012003564)) issued by the Property Ownership Registrar of Huangpu District, Shanghai. The property held by it is situated at Unit 1503, 13<sup>th</sup> Floor, No.18 Tibet Middle Road with a gross floor area of 242.72 square meters, and its construction type is office building for the use of office. According to Shanghai Real Estate Registration Record (《上海市不動產登記簿》) obtained on July 24, 2018, such property is exclusively occupied and used by Shanghai Weiyang without any mortgage or other third-party right attached thereto. As advised by our PRC legal advisor, Shanghai Weiyang has the ownership of the above buildings on a lawful and valid basis, and is the sole legal owner of such buildings. It possesses legal and complete interests over such buildings and by law solely has rights to their occupation, use, lease, mortgage, transfer and disposal. Currently, the actual use of the above buildings do not violate the usage set out in its building ownership certificate and the prohibitive requirements under the PRC laws and regulations.

### **Properties Leased by Us**

As of the Latest Practicable Date, we leased 55 properties with an aggregate floor area of approximately 9,196.33 square meters, which are primarily used as our office premises and employee dormitories.

As of the Latest Practicable Date, for an area with an aggregate floor area of approximately 6,028 square meters, representing approximately 65.54% of the total floor area of the properties leased by our Group, we had not been provided by the landlords with the relevant building ownership certificates, the planning approvals or other documents proving the relevant title of the properties. As a result, we may not be able to continue occupying the relevant properties if our occupancy of any of these leased areas are challenged by the relevant authorities or if third parties seek to assert ownership rights against the landlords.

Our Directors believe that the properties set out above (“**Defective Leased Area**”) are not crucial to, and will not have a material adverse effect on, our business, financial conditions and results



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of operations primarily because (i) our Group, as the lessees, will not be penalized for the landlords' failure to provide the building ownership certificates; (ii) as at the Latest Practicable Date, our Group's usage of the Defective Leased Area had never been challenged by the relevant authorities or any third parties; and (iii) we can easily lease other properties with valid building ownership certificates in the event that we can no longer use any of the Defective Leased Area and the estimated time and cost for relocation would not be material.

As at the Latest Practicable Date, substantially all of our leases where we were the lessee had not been registered with the relevant PRC government authorities. Pursuant to the relevant PRC laws and regulations, parties to a property lease shall register the respective lease with the relevant authorities within the prescribed time limit from executing the lease.

As advised by our PRC Legal Advisor, the relevant PRC government authorities may order us to, within a prescribed time limit, register and file the lease. Failure to do so may subject us to a fine up to RMB10,000 for each non-registration of lease. We were advised by our PRC Legal Advisor that the failure of registration of the leases does not affect the legality of these leases.

We are not aware of any difference of land cost or rental we would have to pay in the event the relevant properties did not have defective titles.

### **Internal Control Measures**

We have implemented the following internal control measures to prevent the future occurrence of property issues such as those disclosed in the above tables. Our Directors are of the opinion that, as at the Latest Practicable Date, our internal control measures below were adequate and effective, in all material respects, to prevent the re-occurrence of non-compliance incidents which will have a material adverse effect on our Group's business, financial conditions and results of operation and enhance ongoing compliance:

- (i) our Internal Audit Department conducts periodic inspections of the land use right certificates and building ownership certificates for our properties and report its findings to our Directors;
- (ii) we have engaged external PRC legal advisors to provide assistance in respect of any legal and compliance matters relating to property titles and give advice when and as appropriate;
- (iii) with respect to new projects to be undertaken by us, under the BOT or BOO model, we will use our best endeavors to specify in the concession agreements to be entered into with the local governments that our project companies are authorized and have the legal right to occupy and use the land and buildings associated with the relevant projects and that we will procure that the local governments assist us in obtaining long-term title certificates for any such properties;

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- (iv) with respect to new projects to be acquired by us, under the TOT model, we will use our best endeavors to negotiate with counterparties to, where necessary and practical, obtain the long-term title certificates prior to the completion of the proposed acquisitions or, alternatively, require additional indemnities for losses that may result from defective property titles;
- (v) new projects can be undertaken by our Group only after being approved by the Board or the Management Committee authorized by the Board based on the project amount with reference to the opinions of Investment Development Department and the Risk Assessment Committee;
- (vi) The Internal Audit Department is responsible for conducting an annual inspection regarding compliance with the above measures. The inspection is part of the internal review work, or a joint inspection will be conducted with the legal department, as appropriate and the results will be reported to our Audit Committee.
- (vii) The Internal Audit Department is also responsible for overseeing the implementation of internal control measures relating to land use right certificates and building ownership certificates and compiling reports or proposals regarding our compliance with such internal control measures. Such reports or proposals are submitted to our Audit Committee for their consideration and record. Regular review meetings are held by the members of the Audit Committee. Ad hoc meetings may be held as needed. After each of these meetings, the reports or proposals mentioned above are submitted to the Board immediately if necessary. Our Company's Internal Audit Department assists the Audit Committee in overseeing the implementation of the internal control measures and ensures compliance on a continuous basis;
- (viii) We established "fixed asset/intangible asset management procedures". Under these procedures, our Operations Management Department is responsible for ensuring effective communication with the local government authorities and applying for and obtaining land use right certificates and building ownership certificates for our land and buildings in a timely manner. Our project company is also responsible for safekeeping and maintaining our land use right certificates and building ownership certificates. It should fully and timely understand the completeness of our land use right certificates and building ownership certificates files, and timely follow up on such application procedures;
- (ix) Our Operations Management Department is in charge of supervising our project company to ensure completion of all necessary formalities and obtaining all necessary land use right certificates and building ownership certificates in a timely manner;
- (x) We have set up requirements to review existing or new concession arrangements that involve land use rights. As part of the review process for the projects, our external legal

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advisor is responsible for assisting in reviewing the contract terms to ensure that the counterparty will have the obligation to provide land use right certificates, if applicable, to be registered in the name of the relevant project company;

- (xi) The Finance Management Department and the Operations Management Department jointly conduct a stock take of our assets at the end of each year to verify the completeness and status of our legal title documents, such as the ownership documents of our assets. If they discover any deficiency, they will investigate the reason for the deficiency and notify the relevant department to rectify such deficiency and complete any outstanding procedures in a timely manner; and
- (xii) We have engaged an external PRC legal advisor to provide assistance on any legal and compliance matters relating to the land use right certificates and building ownership certificates.

The above measures are applicable to the management and control of any companies/projects to be developed by us or acquired by us during the due diligence process, in particular the land use right certificates and building ownership certificates, and the post-development and post-acquisition operation process, with an aim that the operation of any companies/projects to be developed by us or acquired by us are in compliance with our control standards and the relevant PRC laws and regulations.

### **Views of Our Directors and the Joint Sponsors**

Having considered the nature and reasons for our property related issues identified above and the advice from our PRC legal advisers, Zhong Lun Law Firm, the remedial actions taken and the internal control measures adopted by us, the Directors are of the view that we have adequate and effective internal control procedures in place. In addition, after making enquiries of our management, reviewing our enhanced internal control procedures and discussing with our internal control consultant regarding our internal control system, the Joint Sponsors are not aware of any reasons to disagree with our Director's view that our enhanced internal control measures are adequate and effective under the Hong Kong Listing Rules.

### **ENVIRONMENT, HEALTH AND SAFETY**

We are subject to, among other PRC laws and regulations promulgated by the central and local governments, the Environmental Protection Law of the PRC, the Law of the PRC on Appraising Measures on Administration of the Licensing Qualifications for Operation of Environmental Pollution Treatment Facilities and Regulations on the Administration of Construction Project Environmental Protection. Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by the sewage treatment plant before the relevant authorities will grant the approval for the commencement of construction of the project of the

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sewage treatment plant. In addition, upon the completion of the sewage treatment plant project, the relevant environmental regulatory authorities will also inspect the sewage treatment plant to ensure compliance with the applicable environmental protection standards and regulations before the commencement of operations of the sewage treatment plant. Sewage treatment plants that discharge treated water into the environment are required to obtain the Pollution Discharge Permit.

We have not been subject to any material fines or legal action involving non-compliance with any relevant environmental regulations, nor are we aware of any threatened or pending action by any environmental regulatory authority in any of the jurisdictions where we operate, which would have a material impact on our business or operations.

We are also required by the relevant PRC laws and regulations to provide a safe working environment to our employees. We provide our employees with, among other things, protective clothing and gear, as well as training and education on work environment safety by our safety management personnel. In order to comply with applicable national or industrial standards on the design, manufacturing, installation and usage of equipment, we also conduct regular maintenance checks and inspections.

We believe our health and safety measures are adequate and comply with applicable laws and regulations in all material respects. For details of the applicable laws and regulations, see “Regulatory Overview — PRC laws and regulations relating to environmental protection”. During the Track Record Period and up to the Latest Practicable Date, there had not been any major accidents involving any of our employees during their course of employment, and we had not breached any health and safety laws or regulations in the PRC in any material respects which resulted in any sanctions or penalties on us by relevant PRC authorities.

### LICENSES AND PERMITS

Our operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality, among others. In our compliance measures we aim to meet regulatory and industrial standards of relevant central and local government authorities and our industry associations. For more information regarding the laws and regulations that we are subject to in the PRC, please see “Regulatory Overview — Land, Planning and Construction Permits” and “Regulatory Overview — Business Qualifications and Licenses”.

As advised by our PRC Legal Advisor, the Classified Directory for the Management of Stationary Source Discharge Permits (2017) (《固定污染源排污許可分類管理名錄(2017年版)》(部令第45號)) (“Order No. 45”) was promulgated by the MEP on July 28, 2017, pursuant to which a new registration system was introduced. Under the Order No. 45, wastewater treatment industry participants shall apply for new formal pollutant discharge permits and renew their existing pollutant discharge permits under the new registration system by 2019. The Order No. 45 did not stipulate when the new registration system will be in place.

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As of the Latest Practicable Date, 18 of our subsidiaries were still in the process of renewing and applying for their respective pollutant discharge permits. As the new registration system is yet to be implemented by the local environmental protection authorities, our affected subsidiaries cannot renew their existing pollutant discharge permit or apply for a new pollutant discharge permit.

Given the above regulations, pursuant to the Implementation Plan of the General Office of the State Council on Printing and Distributing the Pollutant Discharge Permit System (National Office Issue [2016] No.81)(《國務院辦公廳關於印發控制污染物排放許可制實施方案》(國辦發[2016]81號)), major industries governed by the Pollutant Discharge Permit include atmospheric pollution, and water pollution, and will gradually include other types of pollution. It aims to cover all types of fixed pollution sources and will issue Pollutant Discharge Permit to entities operating in the power and electric industry and papermaking industry in the first phase, and then to entities operating in key industries and overcapacity industries as defined under the Action Plan for Atmospheric Pollution Control (《大氣污染防治行動計畫》) and Action Plan for Water Pollution Control (《水污染防治行動計畫》) by 2017, and finally complete the issuance to relevant entities by 2020. It is further illustrated by the responsible person of Ministry of Environmental Protection Planning and Finance Department in answer to journalists' questions on the Solid Pollution Source Discharge Permit Classification Management Category (2017 version) (《環境保護部規劃財務司有關負責人就<固定污染源排汗許可分類管理名錄(2017年版)>有關問題答記者問》), the year of implementation of the Pollutant Discharge Permit System for each of the above industries is the deadline for the relevant entity to apply for the Pollution Discharge Permit in relation to the discharge of pollutants. Any entity that fails to obtain the relevant Pollutant Discharge Permit before the deadline specified by the State is subject to penalty of discharging without permit. As such, as advised by our PRC legal advisers, although 18 of our subsidiaries have not obtained the Pollutant Discharge Permit as at the Latest Practicable Date, the risk of our 18 subsidiaries being deemed to discharge without permit and being subject to administrative penalty by environmental protection departments is low as the time limit for companies operating in our industry to obtain the Pollution Discharge Permit has not expired. Should our subsidiaries fail to obtain the permit before the deadline for pollutant discharge entity to apply for acceptance for discharge with permit as required by the Pollutant Discharge Permit List, it shall be considered to be discharging pollutants without permit and may be subject to administrative penalty by environmental protection departments.

In addition to the above, for our BOO/BOT project models, after we have entered into the relevant service concession arrangements, the competent government authorities or third party companies are contractually obligated to assist us in obtaining various certificates and permits that we need in order for us to commence construction stage of our projects, which are set out below:

1. Filing of Investment Project by the Enterprises (企業投資項目備案) — approval issued by the development and reform commission at a competent administrative level for project establishment;
2. Environmental impact assessment (環境影響評估) — a procedure required for assessment of the environmental impact of a construction project;

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3. Construction land use planning permit (建設用地規劃許可證) — a permit authorizing an entity to begin the survey, planning and design of a parcel of land;
4. Construction planning permit (建設工程規劃許可證) — a certificate indicating government approval for an entity's overall planning and design of a project;
5. Construction work commencement permit (建築工程施工許可證) — a permit required for the commencement of construction of a project;
6. Environmental protection inspection and acceptance formalities (環保驗收手續) — formalities required for the completion of environmental protection construction work for a project; and
7. Completion inspection and acceptance formalities (工程竣工驗收手續) — formalities required for the completion of construction work for a project.

For our TOT projects, we obtain the buildings and structures which have been built by the local governments or their designees.

Our Directors have confirmed and our PRC legal advisor has opined that as at the Latest Practicable Date, save as otherwise disclosed in the section headed “Business — Properties — Properties Occupied by Us Pursuant to Service Concession Arrangements” the section headed “Business — Non-Compliance” and the section headed “Business — Legal Proceedings”, during the Track Record Period, we had complied with applicable PRC laws and regulations in all material respects, did not have any incidents of material non-compliance and had obtained all relevant licenses, approvals, permits and written confirmations material to our business operations. All of these licenses, approvals and permits remained in full effect, and no circumstances existed that would render the revocation or cancellation of our licenses, approvals and permits or would render legal impediments to our business operations. Our PRC legal advisor has also advised us that, to the best of their knowledge, there is no legal impediment to renewing any material licenses, approvals, and permits for our business and operations in PRC, as long as we comply with the relevant legal requirements and provided that we take necessary steps and submit the relevant applications in accordance with the requirements and schedules prescribed by the applicable PRC laws and regulations.

**NON-COMPLIANCE**

Except as disclosed hereunder, we have complied, in all material respects, with the applicable PRC laws and regulations which are material to our business operations during the Track Record Period and up to the Latest Practicable Date. The following table sets out a summary of our systemic non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.

No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
1.	Failed to complete the Filing of Investment Project by the Enterprises for the construction of one project.	<p>The project is our acquisition project other than our construction project. Such non-compliance incident had already taken place at the time when we acquired the project.</p> <p>None of our Directors or senior management was involved in the non-compliance incidents at the relevant time.</p>	<p>According to the <i>Measures for the Administration of Enterprise Investment Projects Approval and Filing</i>, if a company fails to notify record-filing authority on any change of project information or filed project information according to laws, or provides record-filing authority with false information, it shall be ordered by such record-filing authority to rectify within a given period; and a fine of RMB 20,000 to RMB 50,000 will be imposed for failure to rectify within a given period.</p> <p>Our PRC legal advisor is of the view that, based on the confirmation of the relevant local competent government authority, such non-compliance incidents will not have a material and adverse impact on our business operations.</p>	<p>We have obtained the confirmation from the relevant local government authority that we have the right to continue to operate the relevant project. We have not received any penalty notice in relation to this non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.</p> <p>Our PRC legal advisor is of the view that the aforesaid local government authority is the competent authority to issue the relevant confirmation in writing.</p> <p>We completed the Filing of Investment Project for this project on November 14, 2018.</p> <p>We have adopted enhanced internal control measures and provided relevant training to employees to avoid recurrence of such non-compliance incident.</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
2.	<p>Failed to obtain the construction land use planning permits for the construction work of 13 projects.</p> <p>The local governments are responsible for obtaining the permits for two of the projects and we are responsible for obtaining the permits for the remaining nine projects.</p> <p>In order to accelerate the construction and operation of the projects, such projects implemented the construction work under the instruction of the</p>	<p>Two projects are our acquisition project other than our construction projects. Such non-compliance incidents had already taken place at the time when we acquired the projects.</p> <p>The local governments are responsible for obtaining the permits for two of the projects and we are responsible for obtaining the permits for the remaining nine projects.</p> <p>In order to accelerate the construction and operation of the projects, such projects implemented the construction work under the instruction of the</p>	<p>Our Directors are of the view that, based on the confirmation of the relevant local government authority and the advice of our PRC legal advisor, such non-compliance incident does not have and will not have in the future, a material financial or operational impact on our Group as a whole and as a result no provision has been made in our consolidated financial statements.</p> <p>According to the Urban and Rural Planning Law of the PRC, if a construction entity which was authorized to use the construction land fails to obtain a construction land use planning permit, the people's government at or above the county level shall cancel any relevant authorization document. If the land has already been occupied, it shall be returned promptly. Furthermore, the liable party shall be obliged to compensate for any damage caused to any other relevant parties.</p> <p>Our PRC legal advisor is of the view that, based on the</p>	<p>See "Business — Non-Compliance — Internal Control Measures".</p> <p>We have obtained written confirmations from the relevant local government authorities for five projects, and our PRC legal advisor conducted interviews with the relevant local government authorities for five projects and we have obtained confirmations and conducted interviews for the remaining three projects, all of which confirmed that we are able to continue to construct or operate the relevant projects. We had not been subject to any penalties and have not received any penalty notice as a result of such non-compliance incidents during the Track Record</p>



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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
		<p>local government without obtaining the relevant construction land use planning permits, resulting in the non-compliance upon commencement of construction of such projects.</p> <p>None of our Directors or senior management was involved in the non-compliance incidents at the relevant time.</p>	<p>government confirmations and/or interviews with the relevant local government authorities, (i) we are able to continue the project construction and/or operation without obtaining the construction land use planning permits; and (ii) the risk of penalties being imposed on us by the relevant local government authorities due to the lack of the construction land use planning permits is low.</p> <p>Our Directors are of the view that, based on the government confirmations and interviews with the relevant local government authorities and the advice of our PRC legal advisor, such non-compliance incidents, individually or in aggregate, do not have and will not have in the future, a material financial or operational impact on our Group as a whole and as a result no provision has been made in our consolidated financial statements.</p>	<p>Period and up to the Latest Practicable Date.</p> <p>Our PRC legal advisor is of the view that the aforesaid local governmental authorities are competent authorities to issue the relevant confirmations in writing or through interviews.</p> <p>We obtained the construction land use planning permits for the construction work of Ji'nan Waste Water Treatment Project (Plant 1) Phase IV (濟南污水處理項目(一廠) 四期擴建) on November 26, 2018.</p> <p>We obtained the construction land use planning permits for the construction work of Dalian Quanshui Waste Water Treatment Project Upgrading (大連泉水污水處理項目提標改進) on January 21, 2019.</p> <p>We are in the process of applying for the construction land use planning permits for the remaining 11 projects. As advised by our PRC legal advisor, once the filing documents are accepted by the competent authorities,</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
3.	<p>Failed to obtain the construction planning permits for the construction of 21 projects.</p>	<p>Three projects are our acquisition projects other than our construction projects. Such non-compliance incidents had already taken place at the time when we acquired the projects.</p> <p>The local governments are responsible for obtaining the permits for two of the projects and we are responsible for obtaining the permits for the remaining 16 projects.</p> <p>In order to accelerate the construction and operation of the projects, such projects implemented the construction work under the instruction of the</p>	<p>According to the <i>Urban and Rural Planning Law of the PRC</i>, for construction work carried out without a construction planning permit, the relevant local government at or above the county level may order the construction to cease. If the impact on the planning caused by such construction without the permit can be eliminated, the relevant local government may order the company to rectify such impact; an additional fine of not less than 5% but not more than 10% of the construction cost may be imposed. If such impact cannot be eliminated, the relevant local</p>	<p>there is no legal impediments for our Company to obtain all relevant licenses, permits and approvals.</p> <p>We have adopted enhanced internal control measures and provided relevant training to employees to avoid the recurrence of such non-compliance incidents. See “Business — Non-Compliance — Internal Control Measures”.</p> <p>We have obtained written confirmations from the relevant local government authorities for 12 projects, and our PRC legal advisor conducted interviews with the relevant local government authorities for six projects and we have obtained confirmation and conducted interviews for the remaining three projects, all of which confirmed that we are able to continue to construct or operate the relevant projects. We had not been subject to any penalties and have not received any penalty notice as a result of such non-compliance incidents during the Track Record</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
		<p>local government without obtaining the relevant construction work commencement permits, resulting in the non-compliance upon commencement of construction of such projects.</p> <p>None of our Directors or senior management was involved in the non-compliance incidents at the relevant time.</p>	<p>governments may order the construction entity to demolish such buildings or structures, or, for construction work that cannot be demolished, it may confiscate such buildings or structures or any incomes illegally earned from such property, and a further fine of not more than 10% of the construction cost may be imposed. As advised by our PRC legal advisor, the local governments may impose fines in aggregate of up to RMB65.6 million on us for such non-compliance incidents.</p> <p>Our PRC legal advisor is of the view that, based on the government confirmations and/or interviews with the local government authorities, (i) we are able to continue the project construction and/or operation without obtaining the construction planning permits; and (ii) the risk of penalties being imposed on us by the relevant local government authorities due to the lack of the construction planning permits is low.</p>	<p>Period and up to the Latest Practicable Date.</p> <p>Our PRC legal advisor is of the view that the aforesaid local governmental authorities are competent authorities to issue the relevant confirmations in writing or through interviews.</p> <p>We are in the process of applying for the construction planning permits for 20 out of the 21 projects. As advised by our PRC legal advisor, once the filing documents are accepted by the competent authorities, there is no legal impediments for our Company to obtain all relevant licenses, permits and approvals.</p> <p>Based on the discussions with the local governments, due to certain outstanding information, we do not expect to be able to obtain the permit for one project.</p> <p>We have adopted enhanced internal control measures and provided relevant training to employees to avoid the recurrence of such non-compliance incidents. See</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
			<p>Our Directors are of the view that, based on the government confirmations and interviews with the local government authorities and the advice of our PRC legal advisor, such non-compliance incidents, individually or in aggregate, do not have and will not have in the future, a material financial or operational impact on our Group as a whole and as a result, no provision has been made in our consolidated financial statements.</p>	<p>“Business — Non-Compliance — Internal Control Measures”.</p>
4.	<p>Failed to obtain the construction work commencement permits for the construction work of 27 projects.</p>	<p>Two projects are our acquisition projects other than our construction projects. Such non-compliance incidents had already taken place at the time when we acquired the projects.</p> <p>The local governments are responsible for obtaining the permits for two of the projects and we are responsible for obtaining the permits for the remaining 23 projects.</p> <p>In order to accelerate the construction and operation of the projects, such projects</p>	<p>According to the <i>Rules on the Administration of Construction Quality</i>, for construction work carried out without a construction work commencement permit, a construction entity commencing the project without obtaining the construction work commencement permit or approvals for its construction commencement report, shall be ordered to stop the construction work, carry out remedial actions within a prescribed time limit and pay a fine of not less than 1% but not exceeding 2% of the</p>	<p>We have obtained written confirmations from the relevant local government authorities for 23 projects, and our PRC legal advisor conducted interviews with the relevant local government authorities for two projects, all of which confirmed that, we are able to continue to construct or operate the relevant projects. Except that our Zibo Zhoucun Waste Water Treatment Project Phase I (淄川周村污水处理项目一期) was imposed a fine of RMB30,500 due to the lack of the construction work</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
		<p>implemented the construction work under the instruction of the local government without obtaining the relevant construction work commencement permits, resulting in the non-compliance upon commencement of construction of such projects.</p> <p>None of our Directors or senior management was involved in the non-compliance incidents at the relevant time.</p>	<p>construction price. As advised by our PRC legal advisor, the local governments may impose fines in aggregate of up to RMB8.6 million on us for such non-compliance incidents.</p> <p>Our PRC legal advisor is of the view that, apart from the Nanjing Liuhe Waste Water Treatment Project Phase I (南京六合污水處理項目一期) and the Nanjing Liuhe Waste Water Treatment Project Phase II and Upgrading (南京六合污水處理項目二期二階段及提標), based on the government confirmations and / or interviews with the local government authorities, (i) we are able to continue the project construction and / or operation without obtaining the construction work commencement permits; and (ii) the risk of penalties being imposed on us by the relevant local government authorities due to the lack of the construction work commencement permits is low. Based on the written certificate issued by Nanjing Municipal Liuhe District Water</p>	<p>commencement permit, for which we have obtained the relevant permit in June 2016, we had not been subject to any penalties or have not received any penalty notice as a result of such non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.</p> <p>Our PRC legal advisor is the view that, the aforesaid local governmental authorities are competent authorities to issue the relevant confirmations in writing or through interviews.</p> <p>We obtained the construction work commencement permits for the construction work of Nanjing Pukou Industrial Waste Water Treatment Project Phase I (南京浦口區工業污水處理項目一期) on December 3, 2018.</p> <p>We are in the process of applying for the construction work commencement permits for 23 out of the remaining 26 projects. We were informed in writing by the local government of Ji'nan that we are no longer required to</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
			<p>Bureau, a competent department for water purification in Nanjing, on May 28, 2018, there was no occurrence of circumstances where we were imposed any penalty by this bureau due to non-performance of the service concession agreement since the supervisory function for wastewater treatment plants has been transferred to the bureau in October 2016, but no confirmation or explanation has been issued by the competent construction department in respect of water purification in Nanjing. Therefore, as advised by our PRC legal advisor, there is a possibility that the Nanjing Liuhe Waste Water Treatment Project Phase I and the Nanjing Liuhe Waste Water Treatment Project Phase II and Upgrading may be subject to penalty by the competent government departments for failing to obtain construction work commencement permits. However, as at the Latest Practicable Date, we had been in normal operation and had not</p>	<p>obtain such permits for three projects all located in Ji'nan. As advised by our PRC legal advisor, once the filing documents are accepted by the competent authorities, there is no legal impediments for our Company to obtain all relevant licenses, permits and approvals.</p> <p>We have adopted enhanced internal control measures and provided relevant training to employees avoid the recurrence of such non-compliance incidents. See "Business — Non-Compliance — Internal Control Measures".</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
			<p>been subject to administrative punishments, and we can continue operating such project according to the service concession agreement.</p> <p>Our Directors are of the view that, based on the government confirmations and interviews with the local government authorities and the advice of our PRC legal advisor, such non-compliance incidents, individually or in aggregate, do not have and will not have in the future, a material financial or operational impact on our Group as a whole and as a result, no provision has been made in our consolidated financial statements.</p>	
5.	Failed to complete the relevant completion inspection and acceptance filing formalities for the operation of 39 projects.	<p>Seven projects are our acquisition projects other than our construction projects. Such non-compliance incidents had already taken place at the time when we acquired the projects.</p> <p>We are responsible for obtaining the permits for the remaining 32 projects.</p>	<p>According to the <i>Rules on the Administration of Construction Quality</i>, if a construction entity illegally delivers the construction project for use without obtaining the acceptance checks or in circumstances where it failed to pass the acceptance checks, it shall be ordered to carry out remedial actions and also pay a fine of not less than 2% but not</p>	<p>We have obtained written confirmations from the relevant local government authorities for 33 projects, and our PRC legal advisor conducted interviews with the relevant local government authorities for two projects, and we have obtained confirmations and conducted interviews for the remaining two projects, all of which confirmed</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
		<p>In order to accelerate the operation of the projects, such projects commenced operation without completing the relevant inspection and acceptance filing formalities resulting in the non-compliance upon commencement of operation of such projects.</p> <p>None of our Directors or senior management was involved in the non-compliance incidents at the relevant time.</p>	<p>exceeding 4% of the contractual project price, and shall be obliged to pay compensation according to law if any losses have been caused. If the construction entity fails to file a record of passing the acceptance checking in respect of the project within 15 days from the day when the construction project passes such checks, it shall be ordered to carry out remedial actions within a prescribed time limit and shall be fined not less than RMB200,000 but not exceeding RMB500,000. As advised by our PRC legal advisor, the local governments may impose fines in aggregate of up to RMB14.3 million on us for such non-compliance incidents.</p> <p>As advised by our PRC legal advisor, apart from the Nanjing Liuhe Waste Water Treatment Project Phase I (南京六合污水處理項目一期) and the Nanjing Liuhe Waster Water Treatment Project Phase II and Upgrading (南京六合污水處理項目二期二階段及提標), based on the government confirmations and interviews</p>	<p>that, we are able to continue to operate the relevant projects. We had not been subject to any penalties and have not received any penalty notice as a result of such non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.</p> <p>Our PRC legal advisor is of the view that the aforesaid local governmental authorities are competent authorities to issue the relevant confirmations in writing or through interviews.</p> <p>We are in the process of applying for the completion inspection and acceptance filing formalities for 35 out of the 39 projects. As advised by our PRC legal advisor, once the filing documents are accepted by the competent authorities, there is no legal impediments for our Company to obtain all relevant licenses, permits and approvals.</p> <p>We were informed in writing by the local government of Ji'nan that we are no longer required to</p>



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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
			<p>with the local government authorities. (i) we are able to continue the production and operation of the relevant projects prior to completing the completion inspection and acceptance formalities; and (ii) the risk of us being imposed of penalties due to the lack of the completion inspection and acceptance formalities is low.</p> <p>Based on the written certificate issued by Nanjing Municipal Liuhe District Water Bureau, a competent department for water purification in Nanjing, on May 28, 2018, there was no occurrence of circumstances where any penalty was imposed on us by this bureau due to non-performance of the service concession agreement since the supervisory function for wastewater treatment plants has been transferred to the bureau in October 2016, but no confirmation or explanation has been issued by the competent construction department in respect of water purification in Nanjing.</p>	<p>obtain such permits for four projects all located in Ji'nan.</p> <p>We have adopted enhanced internal control measures and provided relevant training to employees to avoid the recurrence of such non-compliance incident. See "Business — Non-Compliance — Internal Control Measures".</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
			<p>Therefore, as advised by our PRC legal advisor, there is a possibility that the Nanjing Liuhe Waste Water Treatment Project Phase I and the Nanjing Liuhe Waste Water Treatment Project Phase II and Upgrading may be subject to penalty by competent government departments for failing to complete inspection and acceptance filing formalities. However, as at the Latest Practicable Date, we had been in normal operation and had not been subject to administrative punishments, and we can continue operating such project according to the service concession agreement.</p> <p>Our Directors are of the view that, based on the government confirmations and interviews with the local government authorities and the advice of our PRC legal advisor, such non-compliance incidents, individually or in the aggregate, do not have and will not have in the future, a material financial or operational impact on our Group</p>	

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
6.	Failed to complete the environmental protection inspection and acceptance formalities for the operation of five projects.	<p>One project is our acquisition project other than our construction project. Such non-compliance incident had already taken place at the time when we acquired the project.</p> <p>We are responsible for obtaining the permits for the remaining four projects.</p> <p>In order to accelerate the operation of the projects, such projects commenced production without completing the environmental protection inspection resulting in the non-compliance upon commencement of operation of such project.</p> <p>None of our Directors or senior management was involved in the non-compliance incidents at the relevant time.</p>	<p>as a whole and as a result, no provision has been made in our consolidated financial statements.</p> <p>In accordance with the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) for those construction projects which have not completed requisite environmental protection inspection and acceptance formalities, the relevant government at or above the country level may order to make correction within a stipulated period, and a fine of RMB200,000 up to RMB1,000,000 may be imposed or a fine of more than RMB1,000,000 and less than RMB2,000,000 for delay in making such corrections may be imposed. Those causing serious environmental pollution or ecological damage may be ordered to terminate production or use. As advised by our PRC legal advisor, the local governments may impose fines in aggregate of up to RMB2.0</p>	<p>We have obtained written confirmations from the relevant local government authorities for three projects, and we have obtained confirmation and conducted an interview for one project, all of which confirmed that, we are able to continue to operate the relevant projects. We have not been subject to any penalties or have not received any penalty notice as a result of such non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.</p> <p>Another project was Dalian Liangjiadian Waste Water Treatment Project Phase I (大連亮甲店污水處理項目一期). This project has completed its construction in 2014 and passed inspection and acceptance on completion. As at the Latest Practicable Date, this project had not been put into operation or use as the local government has not completed the</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
			<p>million on us for such non-compliance incidents.</p> <p>In accordance with <i>The Notice regarding Enhanced Management of Assessing the Environmental Impact of "Unauthorized Construction" Project</i> (Huanbanhuanping No. (2018) 18) (《關於加強“未批先建”建設專案環境影響評價管理工作的通知》(環辦環評〔2018〕18號)) released by the Ministry of Environmental Protection on February 24, 2018, Article (4) Section 2 provides that “unauthorized construction” would not be imposed administrative punishments by law if not identified within two years since the date of completion of construction; Article (3) provides that construction units should be subject to penalty by law for their breach of the “Three Simultaneous” for environment protection facilities and the system of environmental inspection on completion of construction at the same time.</p> <p>Our PRC legal advisor is of the view that, based on the interviews</p>	<p>construction of the sewage pipe network connecting to the plant.</p> <p>Our PRC legal advisor is of the view that, the aforesaid local governmental authority is competent authority to issue the relevant confirmation through interview.</p> <p>We completed the Filing of the environmental protection inspection and acceptance formalities for the operation of Ju County Shudong Waste Water Treatment Project (莒縣泇東污水處理項目) on November 20, 2018.</p> <p>We are in the process of applying for the completion of the environmental protection inspection and acceptance formalities for the remaining four projects. As advised by our PRC legal advisor, once the filing documents are accepted by the competent authorities, there is no legal impediments for our Company to obtain all relevant licenses, permits and approvals.</p> <p>We have adopted enhanced internal control measures and</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
			<p>results with the local government authorities, and as Dalian Liangjiadian Waste Water Treatment Project Phase I has existed for over two years since its completion of construction and has yet been put into operation, and had to date not been subject to any fine by competent environmental protection authorities or received similar notification from them, (i) we are able to carry out/conduct the production and operation of the relevant projects prior to completing the environmental protection inspection and acceptance formalities; and (ii) the risk of us being imposed of penalties due to the lack of the environmental protection inspection and acceptance formalities is low.</p> <p>Our Directors are of the view that, based on the government confirmation and interviews with the local government authorities and the advice of our PRC legal advisor, such non-compliance incidents, individually or in the</p>	<p>provided relevant training to employees to avoid the recurrence of such non-compliance incidents. See “Business — Non-Compliance — Internal Control Measures”.</p>

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No.	Particulars of the Systemic Non-Compliance Incidents	Reasons and Period for the Non-Compliance and any Directors/Senior Management Involved	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date
			aggregate, do not have and will not have in the future, a material financial or operational impact on our Group as a whole and as a result, no provision has been made in our consolidated financial statements.	

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### Internal Control Measures

In preparation for the Listing, we have engaged an independent internal control consultant (“**Internal Control Consultant**”) to perform an overall assessment on certain procedures, policies and internal controls, and in particular to review the internal controls to be implemented by our Group to prevent, in all material respects, the re-occurrence of non-compliance incidents which will have a material adverse effect on our Group’s business, financial conditions and results of operation and enhance on-going compliance.

During the internal control review, the Internal Control Consultant has provided recommendations to address those deficiencies identified in the internal control system.

We implemented the following measures to prevent the future occurrence of non-compliance incidents as disclosed in the above tables. The Internal Control Consultant performed a follow-up review on the status of implementation of the enhanced internal control measures where the result shows that we have implemented those internal control measures as of August 2, 2018 as recommended. Having considered the implementation of the enhanced internal control measures below, the business nature and operation scale of our Group, our Directors are of the opinion, and the Joint Sponsors concur that, as at the Latest Practicable Date, our internal control measures below were adequate and effective, in all material respects to prevent the re-occurrence of non-compliance incidents which will have a material adverse effect on our Group’s business, financial conditions and results of operation:

1. to ensure that our Company’s internal controls are adequate and effective, our Audit Committee is assisted by various independent professional service providers, including the external auditor of our Company, an international reputable accounting firm, which enables the Audit Committee to carry out assessments of the effectiveness of key internal controls of our Group. Based on the enhanced internal control established and maintained by our Group, work performed by the internal auditors and external auditors, reviews and representations made by the management of our Company, and the documentation on our Group’s key risks, no material defects or failures in the internal control systems of our Company have been identified by the management of our Company;
2. we have established a Risk Assessment Committee to oversee our Group’s overall risk management framework and to advise the Management Committee on our Group’s risk-related matters;
3. the Risk Assessment Committee will approve the feasibility study reports for new projects and meeting minutes for approval of projects will be prepared and properly retained;
4. new projects can be undertaken by our Group only after being approved by the Board or the Management Committee authorized by the Board based on the project amount with reference to the opinions of the Investment Development Department and the Risk Assessment Committee;

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5. the General Manager of the Legal and Risk Management Department will review the agreements to be entered into with the local governments in respect of the new projects;
6. our Operations Management Department and Project Companies are responsible for maintaining communication with the local governmental authorities to facilitate the application for various certificates, permits and approvals;
7. the core management team of the relevant members of our Group are responsible for collecting all certificates, permits and approvals required for operation and construction as well as monitoring the status regarding the application for relevant certificates, permits and approvals;
8. to ensure proper documentation and filing of the relevant certificates and permits, (a) the Company will prepare and the general manager of the respective project company(ies) will approve a register recording information on the relevant certificates and permits for the business operations of the Group that it has obtained, including information on (A) the dates and expiry dates, (B) the issuing authority, (C) the key dates for retrieval or renewal of the certificates and permits, and (D) details of the certificates and permits which are in the process of being obtained (the "Register"); (b) the Register will be distributed to the Legal and Risk Management Department and Internal Audit Department for their record; and (c) the management of the Group has assigned designated personnel to keep safe custody of the certificates and permits obtained and proper approvals shall be obtained in case such certificates or permits are borrowed or taken out of its safe custody;
9. the Internal Audit Department of our Group is responsible for inspecting various certificates and permits required for the business operations of our Group and procuring the project companies without the necessary certificates, permits and approvals to apply for the same, in particular, the Internal Audit Department will conduct the annual inspection on the compliance of the above enhanced internal control measures for preventing re-occurrence of non-compliance incidents and the monitoring results will be reported to the Audit Committee of the Company;
10. the relevant project company will prepare the risk assessment report if certificates or permits required for the business operations for the Group could not be properly obtained. The Risk Assessment Committee, comprising of Mr. Luo Junling (Executive Director and Chief Financial Officer), Mr. Sun Zhiming (Investment Director), Ms. Zhao Weiwei (General Manager of Financial Management Department), Ms. Wen Hui (General Manager of Legal and Risk Management Department), Ms. Peng Pei (Company Secretary and Legal Counsel) and Mr. Siu Ho Fai (Deputy General Manager of Internal Audit Department), will discuss the potential consequences of such non-compliance incidents and approve the risk assessment report and document the approval results in its meeting minutes;



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11. we have engaged an external PRC legal advisor to provide assistance in respect of any legal and compliance matters relating to our operations;
12. our external PRC legal advisor will provide periodic training sessions to our senior management and staff members of all of our project companies, which cover relevant PRC laws and regulations relating to our industries to improve the overall compliance culture of our Group and to raise their awareness of the importance of internal legal compliance and to strengthen their risk management skills, in particular, the Directors and senior management of the Group have attended the internal control training session conducted by our external legal advisor on August 1, 2018 in respect of compliance with the applicable laws and regulations;
13. we will provide our Directors, senior management and employees involved with training, development programs and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time; and
14. with respect to the new projects to be undertaken, our Group will use its best endeavors to specify in the service concession arrangement to be entered into with the local Government Grantor that (a) the relevant members of our Group are authorized and have the legal right to operate the relevant projects; (b) the failure to obtain the relevant certificates, permits or approvals (if any) are not due to the fault of our Group; and (c) our Group will not be subject to any penalties, which will have a material adverse effect on our Group's business, financial conditions and results of operation, for the failure to obtain the relevant certificates, permits or approvals.

In order to monitor the implementation of our enhanced internal controls, the Audit Committee will implement the following measures:

1. with regards to our Group's internal control policies and procedures, the Committee will (a) review and update our Group's internal control policies and procedures on a regular basis, (b) ensure that latest applicable internal control policies and procedures are distributed to members of our Group on a timely basis, (c) oversee and inspect, through the Internal Audit Department, the implementation of our Group's internal control policies and procedures by each member of our Group, and (d) oversee, through the Internal Audit Department, the rectification of any deficiencies identified through our Group's internal control policies and procedures;
2. monitor, through the Internal Audit Department, our project companies to ensure compliance with applicable laws and regulations, including taking necessary steps in obtaining necessary certificates, permits and approvals for all new projects undertaken by our Group;

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3. review the adequacy and effectiveness of our risk management and internal control systems with respect to the operational, compliance and information technology controls of our Group; and
4. review disclosures in the annual report relating to the adequacy and effectiveness of our risk and investment management and internal control systems.

The Risk Assessment Committee will implement the following additional measures:

1. work closely with our external PRC legal advisor to provide on-going advice and assistance in respect of any legal and compliance matters relating to our operations;
2. hold meetings to conduct overall assessment in response to existing and new legal and regulatory requirements on a regular and timely basis;
3. advise the Management Committee on our Group's overall risk tolerance and strategy, and oversee the management in the design, implementation and monitoring of our risk management and internal control systems; and
4. oversee and advise the Management Committee on current risk exposures and risk strategy in light of the macro-economic environment.

### **Views of our Directors and Joint Sponsors**

Having considered, among other matters, (i) the nature and reasons for each of the historical non-compliance incidents set out in “— Non-Compliance”; (ii) the written or verbal confirmation of the relevant competent government authorities, (iii) the findings identified by and major recommendations by the Internal Control Consultant; (iv) the review and walkthrough testing on the implementation of the enhanced internal control measures for the period from August 2, 2018 to September 26, 2018 by the Internal Control Consultant, our Directors are of the view that the enhanced internal control measures are adequate and effective in preventing the re-occurrence of non-compliance which will have a material adverse effect on our Group's business, financial conditions and results of operation.

After considering (i) the business nature and operation scale of our Group's projects; (ii) the discussion with the senior management on the rectification actions, status as of the Latest Practicable Date, and the progress of implementation of the enhanced internal control measures to prevent recurrence of non-compliance incidents; (iii) the discussion with the Internal Control Consultant on the findings, major recommendations and implementation of the enhanced internal control measures; and (iv) our Director's view mentioned above, the Joint Sponsors concur, that the enhanced internal control measures are adequate and effective in preventing the re-occurrence of non-compliance which will have a material adverse effect on our Group's business, financial conditions and results of operation.

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## BUSINESS

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Our Directors are also of the view, and the Joint Sponsors concur, that such non-compliance incidents would not affect the suitability of our Directors to act as directors of our Company under Rules 3.08 and 3.09 of the Hong Kong Listing Rules or the suitability for listing of our Company under Rule 8.04 of the Hong Kong Listing Rules on the following grounds:

- (i) the occurrence of the historical non-compliance incidents disclosed above was not due to the dishonesty or fraudulence of our Directors nor did any of these incidents raise any concern on the integrity of our Directors;
- (ii) with the past occurrence of these incidents, the Directors are minded and alert to any issues that may result in any non-compliance, and there are in place measures for preventing recurrence of non-compliance that will have a material adverse effect on our Group's business, financial conditions and results of operation as disclosed herein and in the Prospectus, and such measures are considered adequate and effective;
- (iii) upon the training sessions provided to our Directors, our Directors are fully aware of the requirements and obligations as directors of a listed issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant rules and regulations; and
- (iv) since the implementation of the enhanced internal control policies and measures and up to the Latest Practicable Date, the Directors confirmed that our Group had not been in any material breach nor accused of any breach of rules and regulations that will result in a material adverse effect on our Group's business, financial conditions and results of operation.

Save as disclosed above and in the Prospectus, we have obtained and currently maintain all necessary permits and licenses that are material to our business operations, and, during the Track Record Period and up to the Latest Practicable Date, we have been in compliance with the applicable laws and regulations relating to our business operations in all material respects.

## LEGAL PROCEEDINGS

During the Track Record Period, two of our projects received administrative penalty for excessive discharge of pollutants which were beyond our control.

Our Inner Mongolia Tongliao Development Zone Waste Water Treatment Project was in violation of the standards prescribed under the relevant PRC laws and regulations as a result of an excessive discharge of pollutants which was beyond our control. We have actively communicated with and explained to the local environmental protection authority and the local development zone management committee in relation to our administrative penalty received, and obtained an official reply in writing from the local development zone management committee, which confirmed that such

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## BUSINESS

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violation was caused by an excessive discharge of pollutants from the upstream entity, thereby exceeding the acceptable capacity of local wastewater treatment plants. In addition, the local development zone management committee has arranged for the upstream entity to indemnify us in full for all losses arising from the excessive discharge and the upstream entity has taken rectification measures to ensure that it will comply with the standard relating to the discharge of pollutants.

Our Qingdao Waste Water Treatment Project (Maidao Plant) was in violation of the standards prescribed under the relevant PRC laws and regulations as a result of an excessive discharge of pollutants as a result of an uplift of the standard relating to the discharge of pollutants which exceeded the prescribed standard as stated in the service concession agreement and exceeded the treatment capacity of the plant, as well as an excessive discharge of pollutants from the upstream. A total fine of RMB4,990,190 was imposed by the local government. In June 2015 and February 2016, we obtained approvals from the Qingdao Drainage Management Office (青島市排水管理處) and Qingdao Development and Reform Commission (青島市發展和改革委員會) for the upgrade of our Qingdao Waste Water Treatment Project (Maidao Plant), the construction of which commenced in July 2016. However, the standard relating to the discharge of pollutants was uplifted in November 2015 which resulted in an excessive discharge of pollutants. As we were already in the process of applying to the relevant local government authorities for an upgrade of the project at the time when the standard relating to the discharge of pollutants was uplifted, we believed that the reasons leading to the administrative penalty were beyond our control, and therefore we applied to the local government for a delay in the payment of the penalty, as well as launched an administrative petition to the local government to withdraw the penalty. The project upgrade completed in January 2018. As at the Latest Practicable Date, the administrative petition was still in progress. We also sold part of our stakes in this project to Qingdao Water Group Co., Ltd in 2017, resulting in us holding only 49% interest in this project as at the Latest Practicable Date.

As at the Latest Practicable Date, there were no pending or threatened litigation, arbitration, or administrative penalties or other proceedings which would materially and adversely affect our business, financial condition or results of operations. Our PRC legal advisor is of the view that, except as disclosed above in “Business — Non-compliance”, we had complied with all applicable PRC laws and regulations in all material respects, and had obtained permits, licenses, qualifications, authorizations and approvals material to our business operations during the Track Record Period and up to the Latest Practicable Date.

## BUSINESS

### AWARDS AND RECOGNITIONS

We have received various awards and recognitions in the PRC for our operations and business, including:

Year	Award/Certificate	Awarding Body
2015	National pilot city of the first batch of sponge city construction (國家第一批海綿城市建設試點城市)	the MOF, the MOHURD, the Ministry of Water Resources
2016	Outstanding operation and management enterprise in 2015 (2015年度運營管理優秀企業)	Department of Housing and Urban-rural construction of Jiangsu Province
2016	Excellent enterprise of high-quality urban wastewater treatment operation of Shandong Province in 2015 (2015年山東全省城市污水處理廠運營品質優秀企業)	Department of Housing and Urban-rural construction of Shandong Province
2017	Enrolled in The Selected PPP Demonstration Projects of the MOF (入選國家財政部《PPP示範項目案例選編》)	the MOF
2017	Xinyi Economic Development Zone Waste Water Treatment Project Phase II was awarded the 2017 annual provincial water management demonstration project (2017年級省級水治理示範項目)	Department of Environmental Protection of Jiangsu Province
2017	Gold prize of Great Wall Cup of Beijing municipal Infrastructure structure in 2016 (2016年度北京市市政基礎設施結構長城杯工程金質獎)	Municipal engineering industry association of Beijing (北京市政工程行業協會)
2017	Jinan City municipal Golden Cup demonstration projects (濟南市市政金杯示範工程)	Municipal engineering industry association of Jinan (濟南市政工程行業協會)
2018	Enrolled in the batch of Third-party Treatment Classic Projects for Environment Pollution of Industrial Park in 2017 (《2017年工業園區環境污染第三方治理典型案例》) by the Ministry of Ecology and Environment of the PRC	the Ministry of Ecology and Environment of the PRC

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### OUR CONTROLLING SHAREHOLDER

CEIL is our Controlling Shareholder as at the date of this Prospectus. It will remain our Controlling Shareholder immediately following the completion of the Global Offering.

Since the Reverse Takeover, CEIL has been our indirect controlling shareholder, holding shares in our Company through CEWHL, an investment holding company. As at the Latest Practicable Date, CEIL was in turn held as to approximately 41.95% by China Everbright Group, its largest shareholder. Immediately following the completion of the Global Offering, we will continue to be a subsidiary of CEIL and CEIL will continue to consolidate our financial results into its accounts in accordance with HKFRS. It is expected that CEIL will remain as the largest shareholder of our Company, holding approximately 72.43% of the issued share capital of our Company through CEWHL immediately following the completion of the Global Offering (assuming that (i) the Over-allotment Option is not exercised; and (ii) no shares are issued or repurchased by our Company pursuant to the general mandate given to our Directors at the annual general meeting of our Company held on April 12, 2019).

CEIL was incorporated in Hong Kong and its shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 257) since 1975. The predecessor of CEIL was Newfoundland International Company Limited, which has been listed on the Hong Kong Stock Exchange since 1975. In 1993, China Everbright Group acquired a controlling interest in Newfoundland International Company Ltd, and Newfoundland International Company Limited was renamed as CEIL in the same year. CEIL Group principally engages in project investment, construction engineering, operation management, technology development and equipment manufacturing related to environmental protection and new energy projects, focusing on seven major business lines, namely, (1) environmental energy, (2) environmental water, (3) greentech, (4) envirotech, (5) equipment manufacturing, (6) eco-recycling and (7) international business.

The environmental water segment, being the subject of this Listing, comprises three types of projects, i.e. wastewater treatment, water environment management (which comprises our sponge city construction and ecological restoration projects) and other projects including our water supply projects, reusable water projects and waste water source heat pump projects. Our environmental water business and the Remaining CEIL Group's business in its six other business sectors are of different nature. While our business focuses on wastewater treatment projects and environmental protection construction projects related to wastewater, as well as other projects related to wastewater and water resources, including water supply, reusable water, wastewater source heat pump, sludge treatment and disposal, and research and development of water environment technologies projects, the business of the Remaining CEIL Group focuses on solid waste treatment, and environmental protection construction projects related to solid waste. The treatment of wastewater and solid waste is not the same, and requires different locations, facilities and technologies to operate. Based on the aforesaid reasons, the business retained by the Remaining CEIL Group belongs to separate business lines from the environmental water business within our Group. We do not intend to, and will not, operate any projects relating to solid waste treatment on a stand-alone basis, and do not intend to compete with the

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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Remaining CEIL Group. Our Directors believe that the business of the Remaining CEIL Group does not, either directly or indirectly, compete, and is not likely to compete, with our business.

Following the Listing, we will operate independently from the Remaining CEIL Group in all essential aspects.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

After considering the following factors, our Directors are of the view that we are capable of independently carrying on our business from our Controlling Shareholder after the Listing without unduly relying upon them.

#### *Operational Independence*

We do not rely on our Controlling Shareholder for our business development, staffing, administration, information technology or sales and marketing. We have established our own departments specializing in these respective areas to operate separately and independently from our Controlling Shareholder. In particular, we have our own capabilities, or have acquired relevant services, to perform all essential administrative functions such as finance, accounting, administration and human resources. In addition, we have employees who are responsible for our operations and human resources management.

We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. Our top 10 customers and suppliers for the Track Record Period were independent third parties. For more details, see “Business — Customers and Pricing — Customers” and “Business — Suppliers”. Save as disclosed under the section titled “Business — Non-Compliance”, we are also in possession of all relevant licenses necessary to carry on and operate our principal businesses; and we have sufficient operational capacity in terms of capital and employees to operate independently.

During the Track Record Period, we entered into hazardous waste treatment and disposal agreements with the Remaining CEIL Group with respect to the treatment and disposal of sludge, waste mechanic oil and other industrial hazardous waste produced as a by-product of the wastewater treatment business of our operating subsidiaries. For details of the terms and amount involved in the hazardous waste treatment and disposal agreements, see “Connected Transactions — Transactions in relation to the provision of sludge treatment and hazardous waste treatment services”. We have access to other suppliers of such hazardous waste treatment and disposal services, who are independent third parties. Upon Listing, if we decide to make further commissions of such services from the Remaining CEIL Group or other connected persons, we will comply with the relevant Hong Kong Listing Rules requirements when making such commission.

China Everbright Group has licensed certain of its trademarks to us directly, or indirectly through CE Hong Kong and CEIL, for nil licensing fees (the “**Trademark Licensing**”). For details of the

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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licensing agreements, see “Business — Intellectual Property”. We believe that China Everbright Group has built significant brand recognition and a set of core values associated with the “Everbright” name, and therefore it is essential that China Everbright Group maintains control over the future development and registration of the marks “Everbright” and “中國光大” to ensure consistent use and maintenance of core values in a coordinated manner. For details of the licensed trademarks, see “Appendix V — Statutory and General Information — B. Further Information about the Business of Our Group — 3. Intellectual property rights”. Our Directors are of the view that our independence and administrative capability should not be affected by the Trademark Licensing.

We have entered into certain tenancy agreements with the Remaining CEIL Group, pursuant to which the Remaining CEIL Group leases to us certain office premises. For details, see “Connected Transactions — Continuing Connected Transactions Exempt from the Independent Shareholders’ Approval Requirement — Transactions in relation to leases of office premises”.

Except as disclosed above, our Directors are of the view that there is no operational dependence by us on our Controlling Shareholder.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### *Management Independence*

Our Company and CEIL have separate boards of directors that function independently. The following table sets out the overlapping directors of our Company and the Remaining CEIL Group immediately following the Listing:

<u>Name</u>	<u>Our Company</u>		<u>Remaining CEIL Group</u>	
	<u>Position</u>	<u>Roles and responsibilities</u>	<u>Position</u>	<u>Roles and responsibilities</u>
Wang Tianyi (王天義)	Non-Executive Director and Chairman	Overseeing the functioning of the Board; formulating the overall corporate strategies, financial objectives and directions of our Group; establishing goals for management and reviewing their performance; approving annual budgets; and ensuring that good corporate governance practices and procedures are established	Executive Director and Chief Executive Officer	Overall management of the CEIL Group
An Xuesong (安雪松)	Executive Director and Chief Executive Officer	Overall management of the Group by establishing annual operating targets and monitoring their execution; responsible for investment, business development, internal control and risk management	Deputy General Manager and member of Management Decision Committee	Management of the environmental water business line of the CEIL Group through our Company

Mr. Wang Tianyi is our non-executive Director and chairman of the Board. He has served as executive director of CEIL since February 21, 2010 and chief executive officer of CEIL since January 1, 2018 and will continue to serve in such positions in CEIL immediately following the Listing. It is expected that Mr. Wang will not be involved in our day-to-day business operations as a non-executive Director, and our Board believes that such arrangement will not affect the discharge of his duties and responsibilities to us and CEIL Group.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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Mr. An Xuesong is our executive Director and chief executive officer, and is a deputy general manager of CEIL. Mr. An's main responsibility within the CEIL Group has been management of the CEIL Group's environmental water business line, which is discharged by way of his appointment as executive Director and chief executive officer of our Company. Save as attending monthly meetings of CEIL's management decision committee to report on our Group's business operations, Mr. An does not have any other involvement in the day-to-day business operations of the Remaining CEIL Group before the Listing, and will not participate in such capacity in the Remaining CEIL Group following the Listing. Following the Listing, Mr. An will dedicate all his time to the day-to-day management of the Group.

Except as disclosed above, none of our executive Directors and senior management will overlap with the board of CEIL. We will continue to function independently from the Remaining CEIL Group. Immediately following the Listing, there will be no overlapping senior management between us and the Remaining CEIL Group. Our Board is of the view that there is no overlapping management function between us and the Remaining CEIL Group, and we are capable of maintaining management independence.

We consider that our Board and senior management will function independently from our Controlling Shareholder because:

- each Director is aware of his fiduciary duties as director which require, among other things, that he acts for the benefit and in the best interest of our Company and our Shareholders as a whole, and does not allow any conflict between his duties as Director and his personal interests;
- the independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the Hong Kong Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions;
- where our Board is considering a resolution in which CEIL is materially interested, the overlapping Directors between our Company and CEIL are required to abstain from voting on such resolution pursuant to our Bye-Laws, and in the event there is an equality of votes by the remaining Directors on such resolution, the chairman (who shall not be an overlapping Director) presiding at such Board meeting shall have a second or casting vote;
- we have established an internal control mechanism to identify related party transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions; and
- in order to allow the non-conflicted members of our Board to function properly with the necessary professional advice, we will engage third-party professional advisers to advise

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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our Board when necessary, depending on the nature and significance of any proposed transactions to be entered into between us and our Directors or their respective associates.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles as Directors independently and manage our business independently from our Controlling Shareholder after the Listing.

### *Financial Independence*

We have an independent financial system and finance team responsible for our own treasury functions and we will make financial decisions based on our own business needs.

As at December 31, 2017, all outstanding loans between our Group and the Remaining CEIL Group had been settled. Further, all forms of financial assistance provided by the Remaining CEIL Group had been terminated or released. The Remaining CEIL Group will not provide any form of financial assistance to us upon Listing. Accordingly, it is expected that there will not be any outstanding indebtedness due from our Group to the Remaining CEIL Group upon Listing. On this basis, we will be financially independent from our Controlling Shareholder at the time of the Listing.

Our Directors believe that our Group will be able to obtain further financing such as bank loans, if necessary, upon market terms and conditions without relying on financial assistance or credit support from our Controlling Shareholder and its associates after the Listing.

For the above reasons, our Directors consider that we are able to maintain financial independence from our Controlling Shareholder and its close associates.

## MEASURES TO ADDRESS POTENTIAL COMPETITION AND CONFLICT OF INTERESTS

### *Non-Compete Undertaking*

To ensure that competition does not develop between our Controlling Shareholder and our Group, CEIL has, on November 7, 2014, provided a non-compete undertaking in favor of our Company, which has subsequently been amended by a supplemental deed entered into by our Controlling Shareholder and our Company dated April 15, 2019 (together, the “**Non-Compete Undertaking**”), pursuant to which CEIL undertook that it shall not and shall procure its subsidiaries (excluding our Company and the Subsidiaries (each a “**Group Company**”) not to, whether directly or indirectly, engage in, carry on (whether alone or in partnership or joint venture with anyone else) or otherwise be interested in (whether as a trustee, principal, agent, shareholder, unitholder or in any other capacity) the environmental water business, involving wastewater treatment, reusable water projects and wastewater heat pump projects (“**Relevant Business**”) in all territories where our Group operates, save that the Non-Compete Undertaking shall not be construed as prohibiting CEIL or any of its subsidiaries (excluding any Group Company) from:

- (i) holding, for investment purposes, of an interest of not more than five per cent. (5%) in any entity or business engaged in the Relevant Business, provided that the Remaining CEIL

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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Group does not have any involvement in the day-to-day management of or control over such entity or business; or

- (ii) subject to a right of first refusal (“**ROFR**”) granted to our Company as described below, acquiring and holding any portfolio of assets that consists of assets other than assets relating to the Relevant Business, which must be acquired together with assets within such portfolio, which engage in the Relevant Business (the “**Relevant Assets**”), not being offered separately for sale (the “**Mixed Assets**”).

Under the ROFR, within 90 Business Days upon completion of an acquisition by a company within the Remaining CEIL Group (a “**Remaining CEIL Group Company**”) of Mixed Assets which any Relevant Assets are a part of, CEIL shall by written notice (the “**ROFR Notice**”) give to our Company an offer of sale of such Relevant Assets (the “**Proposed Disposal**”) for a consideration equivalent to the Acquisition Costs (as described below), subject to such legal or regulatory approvals, consents or waivers as may be required to be obtained by in connection therewith. “**Acquisition Costs**” means the consideration paid by the relevant Remaining CEIL Group Company to acquire the Relevant Assets, any monies or capital which are injected, invested or contributed by the relevant Remaining CEIL Group Company to the Relevant Assets after completion of the acquisition of the Relevant Assets, any costs reasonably incurred by the relevant Remaining CEIL Group Company in restructuring a portfolio of Mixed Assets such that the respective Relevant Assets can be offered for sale pursuant to the right of first refusal, and any fees, expenses and other transaction costs reasonably incurred by the relevant Remaining CEIL Group Company in respect of the foregoing.

If:

- (i) our Company does not confirm in writing to CEIL our Company’s interest in the Proposed Disposal within 30 Business Days (or such other period as CEIL and our Company may agree in writing) from the date of our Company’s receipt of the ROFR Notice;
- (ii) our Company does not enter into a binding commitment for the completion of the transaction contemplated by the Proposed Disposal (in the form of a binding definitive agreement) within 90 Business Days (or such other period as CEIL and our Company may agree in writing) from the date of our Company receipt of the ROFR Notice; or
- (iii) (where our Company has entered into a binding commitment for the completion of the transaction contemplated by the Proposed Disposal) the proposed completion of the transaction contemplated by the Proposed Disposal is aborted, lapses or is terminated in accordance with the terms of such binding commitment (not due to the breach by the Remaining CEIL Group of its obligations under the binding commitment),

the ROFR shall be deemed to have lapsed (such date being the “**Date of Lapse**”) and CEIL shall be free to pursue offering the opportunity for the Proposed Disposal to third parties on such terms and conditions which are no more favorable than the price and terms which were offered to our Company under the right of first refusal.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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If the ROFR in respect of a Proposed Disposal is deemed to have lapsed pursuant to the above and (i) the Remaining CEIL Group does not enter into a binding definitive agreement with a third party (the “**Third Party Agreement**”) in respect of the Proposed Disposal within 12 months from the Date of Lapse; or (ii) the completion of the transaction pursuant to the Third Party Agreement is aborted, lapses or is terminated (the “**ROFR Option Period**”), our Company’s ROFR in respect of that Proposed Disposal shall be reinstated and CEIL shall provide the ROFR Notice to our Company within seven Business Days of the expiration of the ROFR Option Period.

Any sale or any transfer of the Relevant Assets by the Remaining CEIL Group to our Company shall be subject to the requirements of the Hong Kong Listing Rules and the Listing Manual, and in particular those requirements with respect to connected transactions.

CEIL is entitled to terminate the Non-Compete Undertaking and the right of first refusal by written notice to our Company if:

- (i) CEIL and/or its related corporations (as defined under the Singapore Companies Act) ceases or cease to be a controlling shareholder (as defined in the Listing Manual) of our Company; or
- (ii) our Company is neither listed on the SGX-ST Main Board nor the Hong Kong Main Board.

As advised by our legal advisers as to Singapore laws, the Non-Compete Undertaking should be treated by the courts of Singapore as legally binding between CEIL and our Company and enforceable in accordance with its terms. Our Company is, therefore, entitled to bring a contractual claim against CEIL in the event that CEIL fails to procure its subsidiaries to comply with the terms of the Non-Compete Undertaking. Based on the above, our Directors believe that the Non-Compete Undertaking is effective and enforceable.

As at the Latest Practicable Date, there has not been any acquisition of Relevant Assets by the Remaining CEIL Group which would have triggered the ROFR under the Non-Compete Undertaking. It is intended that the Non-Compete Undertaking will remain in force upon the Listing.

## CORPORATE GOVERNANCE

In addition to the measures to address potential competition and conflict of interests as stated above, our Directors believe that there are also adequate corporate governance measures in place to manage the potential conflict of interests between our Controlling Shareholder and our Group and to safeguard the interests of our Shareholders taken as a whole.

We have adopted the Singapore Code of Corporate Governance 2018, and following the completion of Listing, we will adopt the Corporate Governance Code and will comply with the code

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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provisions in the Corporate Governance Code. The Corporate Governance Code sets forth principles of good corporate governance in relation to, among other matters, directors, chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders.

We are also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers set forth in Appendix 10 to the Hong Kong Listing Rules, which provides, among other matters, prohibitions on directors' dealings in securities and protection of minority shareholders' rights.

Our Directors are therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between us and our Controlling Shareholder, and to protect minority Shareholders' rights after the Listing.

We are committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on our Board which can effectively exercise independent judgment. Our independent non-executive Directors, details of whom are set forth in the section entitled "Directors and Senior Management", individually and together possess the requisite knowledge and experience for our Board. All of our independent non-executive Directors are experienced and are committed to providing impartial and professional advice to protect the interest of our minority Shareholders.

In addition, our Company will implement the following corporate governance measures following the Listing:

- Any transaction made (or proposed to be made) between our Company and our connected persons will be required to comply with (i) Chapter 14A of the Hong Kong Listing Rules which include, but without limitation, where applicable, the announcement, reporting, circular and shareholders' approval requirements and (ii) those other conditions imposed by the Hong Kong Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Hong Kong Listing Rules.
- If there is any conflict of interests in the operations of the Remaining CEIL Group and us, and in respect of any proposed contracts or arrangements entered into or to be entered into between the Remaining CEIL Group and us, any director of our Company and CEIL who is considered to be interested in the relevant matter will be required to disclose his interests to the respective boards of directors. In general, after the Listing, any Director who has a material interest in actual or potential connected transactions will be required under the Hong Kong Listing Rules and our Bye-laws to abstain from voting in meetings of the Board in relation to such transactions. In these cases, our independent non-executive Directors will bring their independence to our Board's decision making process. They will also advise and vote on the transactions and can seek independent advice from external financial advisers if required. Our non-conflicted executive Directors will also bring their extensive experience and expertise to our Board.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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- Our independent non-executive Directors will disclose decisions (with basis) on matters in relation to or transactions with the Remaining CEIL Group reviewed in the interim and the annual reports of our Company or by way of announcement to be published in compliance with the disclosure requirements under the Hong Kong Listing Rules.

In light of the above measures to be implemented by our Board, both our Directors confirm that their respective boards of directors will be able to function and operate independently and effectively in the best interest of the respective companies.

### CONFIRMATION

Except as disclosed above, as at the Latest Practicable Date, apart from the business in which our Group is involved, our Controlling Shareholder was not engaged or did not have interest in any business which, directly or indirectly, competes or may compete with the businesses in which our Group is involved and which would require disclosure under Rule 8.10 of the Hong Kong Listing Rules. None of our Directors had an interest in any business which competes or is likely to compete, either directly or indirectly, with the business in which our Group is involved.

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## CONNECTED TRANSACTIONS

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### FULLY EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Following the Listing, the following transactions will be regarded as continuing connected transaction exempt from the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

#### Transactions in relation to insurance services

##### *Connected persons and relationship*

Sun Life Everbright Life Insurance Co., Ltd. (光大永明人壽保險有限公司) ("**Sun Life**") is a subsidiary of China Everbright Group, the controlling shareholder of CEIL. Sun Life is therefore an associate of CEIL and a connected person of our Company under the Hong Kong Listing Rules.

##### *Background*

In the ordinary and usual course of business, we have entered into and, following the Listing, expect to continue to enter into transactions with Sun Life on normal commercial terms whereby we purchase insurance and insurance-related services from Sun Life (the "**Insurance Services**").

A number of our subsidiaries procure from Sun Life life insurance, medical insurance and accident protection insurance protection for our employees on normal commercial terms. In respect of each of the insurance arrangements, insurance agreements (the "**Insurance Agreements**", each a "**Insurance Agreement**") have been entered into between Sun Life and the respective subsidiary pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules.

Each of the Insurance Agreements is for a fixed term of one year. As of the Latest Practicable Date, the insurance premium payable by us under the Insurance Agreements is HK\$822,709 in aggregate. The amounts payable by our subsidiaries to Sun Life under these Insurance Agreements are determined after arm's length negotiations between the parties with reference to the type and scope of insurance services provided and prevailing market prices based on the pricing quoted by no fewer than two independent third parties for the same or similar insurance services, and on a fair and reasonable basis.

##### *Historical transaction amounts*

For the three years ended December 31, 2016, 2017 and 2018, the amount payable to Sun Life by us with respect to the purchase of Insurance Services was HK\$152,137, HK\$977,837 and HK\$1,462,572, respectively.

##### *Hong Kong Listing Rules*

Since the highest of all applicable percentage ratios for the transactions under the Insurance Agreements taking into account the aggregate amount of insurance premium payable by us and



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## CONNECTED TRANSACTIONS

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calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules is less than 0.1%, the transactions under the Insurance Agreements are continuing connected transactions fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.76(1) of the Hong Kong Listing Rules.

### Transactions in relation to the provision of operation and management services

#### *Connected persons and relationship*

Everbright Sponge City Development (Zhenjiang) Limited ("**CEW Zhenjiang**") is a non-wholly owned subsidiary of the Company and held as to 70% by our Company and 30% by Zhenjiang Water Service Group ("**Zhenjiang Water Service**"). Zhenjiang Water Service is a substantial shareholder of CEW Zhenjiang and therefore a connected person of our Company at a subsidiary level under the Hong Kong Listing Rules.

#### *Background*

In the ordinary and usual course of business, we have entered into an agreement with Zhenjiang Water Service on February 1, 2019, pursuant to which we agreed to provide operation and management services (the "**Operation and Management Services**") to Zhenjiang Water Service in relation to certain wastewater treatment plants in Zhenjiang City, Jiangsu Province (the "**Operation and Management Agreement**"). The Operation and Management Agreement is for a fixed term of three years. Pursuant to the Operation and Management Agreement, Zhenjiang Water Service shall pay us a service fee on a monthly basis, determined at RMB0.235 per cubic meter of wastewater processed (inclusive of tax, water, electricity, medicine and equipment repairing expenses of the plants and wages) (the "**Wastewater Treatment Unit Fee**"). If the actual volume of wastewater processed does not reach the full load amount (i.e. less than 200,000 cubic meters per day), the amount payable by Zhenjiang Water Service shall be calculated in accordance with the volume of wastewater processed less 75,000 cubic meters per day, and multiplied by (i) the number of days in operation in the relevant month and (ii) the Sewage Treatment Unit Fee. The Wastewater Treatment Unit Fee is determined upon arm's length negotiations between the parties.

#### *Historical transaction amounts*

We had no transaction with Zhenjiang Water Service with respect to the Operation and Management Services prior to 2019. As of the Latest Practicable Date, we have not received any service fees from Zhenjiang Water Service pursuant to the Operation and Management Agreement.

#### *Hong Kong Listing Rules*

Since the highest of all applicable percentage ratios for the transactions under the Operation and Management Agreement calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules is less than 1% and the transaction is a connected transaction only because it involves a connected person

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## CONNECTED TRANSACTIONS

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at the subsidiary level, the transaction under the Operation and Management Agreement is a connected transaction fully exempt from the reporting, annual review, announcement and independent Shareholder's approval requirements under Rule 14A.76(1)(b) of the Hong Kong Listing Rules.

### **Licensing Agreements in respect of trademarks**

China Everbright Group and CE Hong Kong are the controlling shareholders of CEIL, the Controlling Shareholder of our Company. China Everbright Group and CE Hong Kong are therefore associates of CEIL and a connected person of our Company under the Hong Kong Listing Rules.

China Everbright Group and CE Hong Kong entered into licensing agreements (the "**Trademark License Agreements**") with our Company and its subsidiaries to grant our Company, its subsidiaries and their respective affiliates the non-exclusive rights to use the trademarks of "Everbright" for their products and services and "Everbright" as part of their respective company names during the validity of the trademarks at nil consideration. The Trademark License Agreements are for a fixed term not exceeding three years from the dates of each of the Trademark Licensing Agreements and will terminate automatically upon, amongst other things, (i) mutual consent of the parties; (ii) prior written notice by the relevant licensor of its intention to terminate the agreement; or (iii) the dissolution or winding up of the relevant licensee. For details of the trademarks, please refer to the section titled "Appendix V Statutory and General Information — B. Further Information about the Business of our Group — 3. Intellectual Property Rights — (1) Trademarks".

Since all the applicable percentage ratios for the transactions under the licensing agreement calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules are less than 0.1%, the transactions under the licensing agreement are continuing connected transactions fully exempt from the shareholders' approval, annual review and all disclosure requirements under Rule 14A.76 of the Hong Kong Listing Rules.

### **CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT**

Following the Listing, the following transactions will be regarded as continuing connected transactions exempt from independent Shareholders' approval requirement but subject to the reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

### **Transactions in relation to leases of office premises**

#### *Connected persons and relationship*

CE Environmental, Everbright Environmental Protection (China) Company Limited (光大環保(中國)有限公司) ("**EB Environmental (China)**") and Everbright Envirotech (China) Limited (光大環境科

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## CONNECTED TRANSACTIONS

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技(中國)有限公司) (“**EB Envirotech (China)**”) are wholly-owned subsidiaries of CEIL, the Controlling Shareholder of our Company. CE Environmental, EB Environmental (China) and EB Envirotech (China) are therefore associates of CEIL and connected persons of our Company under the Hong Kong Listing Rules.

### *Background*

In the ordinary and usual course of business, we have entered into and, following the Listing, expect to continue to enter into transactions with the Remaining CEIL Group on normal commercial terms whereby the Remaining CEIL Group leases to us certain office premises. In Hong Kong, CE Environmental sublets to us office premises for a term of three years commencing on May 18, 2016 and expiring on May 17, 2019 (both days inclusive). Such office premises have been rented by CE Environmental for the same period from Lane Bright Limited, an indirect wholly-owned subsidiary of CE Hong Kong, which is an indirect controlling shareholder of CEIL.

In the PRC, EB Environmental (China) leases to Everbright Water (Shenzhen) Limited office premises in Shenzhen, with a total gross floor area of approximately 559.93 sq.m. for a term of two years commencing on June 1, 2017 and expiring on May 31, 2019 (both days inclusive). EB Envirotech (China) leases to Everbright Water Technology Development (Nanjing) Limited office premises in Nanjing, with a total gross floor area of approximately 609.00 sq.m. for a term of three years commencing on July 1, 2017 and expiring on June 30, 2020 (both days inclusive). In addition, for the year ended December 31, 2017, we also rented from EB Envirotech (China) meeting rooms and guest rooms in Nanjing, in respect of which we were charged on a per-use basis. The amounts payable by our Group to CE Environmental, EB Environmental (China) and EB Envirotech (China) were determined after arm’s length negotiations between the parties with reference to prevailing market rents.

In respect of the leasing of office premises, meeting rooms and guest rooms to our Group by each of CE Environmental, EB Environmental (China) and EB Envirotech (China), as procured by CEIL, we entered into a framework agreement with CEIL on April 15, 2019, pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, on normal commercial terms for a fixed term not exceeding three years from the date of the agreement to December 31, 2021 (“**Property Lease Framework Agreement**”).

Pursuant to the Property Lease Framework Agreement, we will enter into separate tenancy agreements with CE Environmental, EB Environmental (China) and EB Envirotech (China) (as appropriate) in respect of the leasing of office premises, meeting rooms and guest rooms. The rent payable by us under each tenancy agreement should be determined with reference to the prevailing market conditions and the rental level of similar properties in the vicinity, with an opinion from an independent professional valuer to confirm that the rentals are in the region of the prevailing market rental for the property.

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## CONNECTED TRANSACTIONS

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### *Historical transaction amounts*

We had no transactions with CE Environmental with respect to rental arrangements prior to 2016, and we had no transactions with EB Envirotech (China) with respect to rental arrangements prior to 2017. Subsequent to the commencement of the rental arrangements, the monthly rents payable by us to CE Environmental for the office premises in Hong Kong, EB Environmental (China) for the office premises in Shenzhen and EB Envirotech (China) for the office premises in Nanjing are HK\$307,800, RMB128,784, and RMB27,405, respectively. For the year ended December 31, 2016, the rents payable by us to CE Environmental and EB Environmental (China) for office premises rental amounted to HK\$2,102,473 and HK\$1,700,093, respectively. For the year ended December 31, 2017, the rents payable by us to CE Environmental, EB Environmental (China) and EB Envirotech (China) for office premises rental amounted to HK\$3,411,340, HK\$1,603,464 and HK\$189,564, respectively. For the year ended December 31, 2018, the rents payable by us to CE Environmental, EB Environmental (China) and EB Envirotech (China) for office premises rental amounted to HK\$3,283,800, HK\$1,663,178 and HK\$876,307, respectively. We are entitled to a rent-free period of three months under the existing tenancy agreement with CE Environmental, which shall be from May 18, 2016 to June 17, 2016; from May 1, 2017 to May 31, 2017, and from May 1, 2018 to May 31, 2018. For the years ended December 31, 2017 and December 31, 2018, the rents payable by us to EB Envirotech (China) for meeting rooms and guest rooms rental amounted to HK\$40,089 and HK\$353,520, respectively.

### *Annual caps*

Based on (1) the monthly rents and other fees (including utility fees and property management fees) payable by us under the existing tenancy agreements, (2) the three-month rent-free periods as mentioned above, (3) the prevailing and projected market rates of similar properties in the vicinity, (4) the expiry dates of the lease of office premises from CE Environmental and EB Environmental (China) to us on May 17, 2019 and May 31, 2019, respectively, (5) our preliminary negotiations with CE Environmental in respect of the terms of leasing upon expiration of the existing tenancy agreement and (6) the Group's expected needs to rent meeting rooms and guest rooms, in particular, we estimate that (1) the amount of rents payable to CE Environmental for the rental of our Hong Kong office premises will increase by approximately 21% after the expiration of the existing tenancy agreement on May 17, 2019, (2) the amount of rents payable by us to EB Environmental (China) for the rental of office premises in Shenzhen will increase by 10% on average per year after expiration of the existing tenancy agreement on May 31, 2019, and (3) the amount of rents payable by us to EB Envirotech (China) for the rental of office premises in Nanjing will increase by 10% on average per year, as the size of our Nanjing office premises will gradually increase due to business expansion. Accordingly, our Directors estimate that the annual rental payment under the Property Lease Framework Agreement will not exceed the following annual caps for the three years ending December 31, 2021:

	Year ending December 31,		
	2019	2020	2021
Aggregate amounts to be paid by us under the Property Lease Framework Agreement	7,110,500	7,565,750	7,690,050

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## CONNECTED TRANSACTIONS

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### *Hong Kong Listing Rules*

Since the highest of all applicable percentage ratios for the transactions under the Property Lease Framework Agreement calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules is more than 0.1% but less than 5%, the transactions under the Property Lease Framework Agreement are continuing connected transactions subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement under Rule 14A.76(2)(a) of the Hong Kong Listing Rules.

### **Transactions in relation to the provision of sludge treatment and hazardous waste treatment services**

#### *Connected persons and relationship*

CEIL is the Controlling Shareholder of our Company, and therefore a connected person of our Company under the Hong Kong Listing Rules. Everbright Environmental (Yancheng) Solid Waste Treatment Company Limited (光大環保(鹽城)固廢處置有限公司) and Everbright Environmental Solid Waste Treatment (Xinyi) Limited (光大環保固廢處置(新沂)有限公司) (the "**Greentech Subsidiaries**") are subsidiaries of China Everbright Greentech Limited ("**Everbright Greentech**"), which is a subsidiary of CEIL, the Controlling Shareholder of our Company, so each of the Greentech Subsidiaries is therefore an associate of CEIL and a connected person of our Company under the Hong Kong Listing Rules.

#### *Background*

In the ordinary and usual course of business, we have entered into with the Greentech Subsidiaries whereby we receive (1) sludge treatment and disposal services and (2) hazardous waste treatment services from the Greentech Subsidiaries. The Greentech Subsidiaries are professional institutions primarily engaging in hazardous waste treatment. Following the Listing, we expect to continue to enter into transactions with subsidiaries of CEIL for the provision of sludge treatment and disposal, hazardous waste treatment and disposal and laboratory waste treatment and disposal services (the "**Sludge Treatment and Hazardous Waste Treatment Services**").

In respect of the receipt of Sludge Treatment and Hazardous Waste Treatment Services from the subsidiaries of CEIL, we entered into a framework agreement with CEIL on April 15, 2019, pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, on normal commercial terms for a fixed term not exceeding three years from the date of the agreement to December 31, 2021 ("**Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement**").

Under the Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement, CEIL will procure its subsidiaries to provide the Sludge Treatment and Hazardous Waste Treatment Services to our Group based on normal commercial terms, and after arm's length negotiations between

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## CONNECTED TRANSACTIONS

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the relevant subsidiary of CEIL and our Group. We will enter into separate sludge treatment and hazardous waste treatment services contracts with the respective subsidiaries of CEIL in respect of the specific needs of our waste water treatment or water environment treatment projects. The amount payable by us under each sludge treatment and hazardous waste treatment services contract should be determined with respect to the specific needs of the project and the amount and type of waste to be disposed, with reference to prevailing market prices based on the pricing quoted by no fewer than two independent third parties for the same or similar services and on a fair and reasonable basis. The prices quoted by CEIL or its respective subsidiaries to our Group shall be no less favorable to us than the terms it quotes to independent third parties for the same services.

### *Historical transaction amounts*

We had no transactions with CEIL and/or its subsidiaries with respect to the Sludge Treatment and Hazardous Waste Treatment Services prior to 2017. For the years ended December 31, 2017 and December 31, 2018, the amount payable to the Greentech Subsidiaries by us with respect to the receipt of Sludge Treatment and Hazardous Water Treatment Services were HK\$795,475 and HK\$2,489,441.

### *Annual caps*

Based on (1) the historical amount of sludge or hazardous waste produced per tonne of wastewater treated and (2) the estimated capacity of our wastewater treatment projects, we estimate that (i) the amount of sludge for which treatment and disposal services are required would be up to 30 tonnes per day for the year ended December 31, 2019 and up to 50 tonnes per day for the years ended December 31, 2020 and December 31, 2021, and the fees to be charged by the relevant subsidiary of CEIL would be at RMB300 per tonne; (ii) the amount of hazardous waste for which treatment and disposal services are required would be up to 500 tonnes per year for the years ended December 31, 2019, December 31, 2020 and December 31, 2021, and the fees to be charged by the relevant subsidiary of CEIL would be at RMB5,500 per tonne for the years ended December 31, 2019, December 31, 2020 and December 31, 2021, and (iii) the amount of laboratory waste for which treatment and disposal services are required would be up to 2 tonnes per year for the years ended December 31, 2019, December 31, 2020 and December 31, 2021, and the fees to be charged by the relevant subsidiary of CEIL would be at RMB15,000 per tonne. Accordingly, our Directors estimate that the annual amount payable under the Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement will not exceed the following annual caps for the three years ending December 31, 2021:

	Year ending December 31,		
	2019	2020	2021
	(HK\$)		
Aggregate amounts to be paid by us under the Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement	6,877,000	9,522,000	9,522,000

### *Hong Kong Listing Rules*

Since the highest of all applicable percentage ratios for the transactions under the Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement calculated in accordance

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## CONNECTED TRANSACTIONS

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with Rule 14.07 of the Hong Kong Listing Rules is more than 0.1% but less than 5%, the transactions under the Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement are continuing connected transactions subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement under Rule 14A.76(2) of the Hong Kong Listing Rules.

### Transactions in relation to underwriting and advisory services

#### *Connected persons and relationship*

China Everbright Group is a controlling shareholder of CEIL, the Controlling Shareholder of our Company. China Everbright Group is therefore an associate of CEIL and a connected person of our Company under the Hong Kong Listing Rules. CEB International Investment Corporation Limited (光銀國際投資有限公司) ("**CEB International**") is a subsidiary of China Everbright Bank Company Limited ("**CE Bank**"), a subsidiary of Central Huijin Investment Ltd., a controlling shareholder of CEIL, which is in turn the Controlling Shareholder of our Company. Everbright Securities Company Limited (光大證券股份有限公司) ("**EB Securities**") is a subsidiary of China Everbright Group, which is the controlling shareholders of CEIL, the Controlling Shareholder of our Company. CEB International and EB Securities are therefore associates of CEIL and a connected person of our Company under the Hong Kong Listing Rules.

#### *Background*

In the ordinary and usual course of business, we have entered into and, following the Listing, expect to continue to enter into transactions with CEB International and/or EB Securities (including their respective affiliates) as procured by China Everbright Group on normal commercial terms whereby we receive underwriting and advisory services with respect to the issuance and/or quotation of securities (including but not limited to convertible bonds, hybrid bonds, corporate bonds, asset backed securities, ordinary shares, preference shares, rights and/or other securities) by our Group within or outside the PRC from CEB International and/or EB Securities and/or their respective affiliates in accordance with relevant rules and regulations (the "**Underwriting and Advisory Services**").

In respect of the Underwriting and Advisory Services provided by CEB International and/or EB Securities and/or their respective affiliates as procured by China Everbright Group, we entered into a framework agreement with China Everbright Group on April 15, 2019 pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, on normal commercial terms for a fixed term not exceeding three years from the date of the agreement to December 31, 2021 ("**Underwriting and Advisory Services Framework Agreement**").

We will enter into separate underwriting and advisory services contracts with CEB International and/or EB Securities and/or their respective affiliates in respect of the provision of Underwriting and Advisory Services. Under the Underwriting and Advisory Services Framework Agreement, China

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## CONNECTED TRANSACTIONS

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Everbright Group shall procure CEB International and/or EB Securities and/or their respective affiliates to provide the Underwriting and Advisory Services to our Group for underwriting commission and/or sponsors and financial advisory service fees (as appropriate) determined based on normal commercial terms and after arm's length negotiations between CEB International or EB Securities or their respective affiliates (as appropriate) and our Group that are no less favorable to our Group than the terms available to us from independent third parties. Our Group will obtain quotations from CEB International or EB Securities or their respective affiliates and at least two other counterparties, and will only engage CEB International or EB Securities or their respective affiliates if the price(s) or fee(s) at which CEB International or EB Securities or their respective affiliates (as appropriate) underwrite and/or advise such securities will not be higher than the price(s) or fee(s) at which such securities are underwritten or advised by third parties.

### *Historical transaction amounts*

We had no transactions with CEB International with respect to Underwriting and Advisory Services, and had no transactions with EB Securities with respect to Underwriting and Advisory Services prior to 2017.

On June 22, 2017, the Shanghai Stock Exchange and the China Securities Regulatory Commission has approved an application by our Company for a proposed issuance of RMB-denominated corporate bonds of a registered size of up to RMB2.5 billion in a single or multiple tranches to qualified investors in the PRC within 24 months following the date of the approval (the **"Panda Bond Approval"**).

Our Company has subsequently entered into an underwriting agreement with EB Securities on July 21, 2017 with respect to the issuance by our Company of the First Tranche Panda Bonds. The amount of underwriting service fees payable by our Company to EB Securities for the provision of underwriting and other services with respect to the issuance of the First Tranche Panda Bonds was RMB5 million, being 0.5 per cent of the aggregate principal amount of the First Tranche Panda Bonds.

EB Securities also underwrote the issuance by our Company of the Second Tranche Panda Bonds pursuant to the Panda Bond Approval. The aggregate size of issue of the Second Tranche Panda Bonds comprised (i) type 1 bonds with an aggregate principal amount of RMB400,000,000, the proceeds of which will be used for construction of four specified environmental projects to be undertaken by our Group that are certified to be green projects (the **"2018 Type 1 Bonds"**); and (ii) type 2 bonds with an aggregate principal amount of RMB400,000,000, the proceeds of which will be used for the repayment of the existing indebtedness and general working capital of our Group (the **"2018 Type 2 Bonds"**). The amount of underwriting service fees payable by the Company to EB Securities for the provision of underwriting and other services with respect to the issuance of the Second Tranche Panda Bonds was RMB4 million, being 0.5 per cent of the aggregate principal amount of the Second Tranche Panda Bonds.



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## CONNECTED TRANSACTIONS

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On January 21, 2019, our Company has completed the issuance of the Third Tranche Panda Bonds pursuant to the Panda Bond Approval. EB Securities was engaged as the lead underwriter for the issuance of the Third Tranche Panda Bonds by way of a standby commitment underwriting. The amount of underwriting service fees payable by our Company to EB Securities for the provision of underwriting and other services with respect to the issuance of the Third Tranche Panda Bonds was RMB3.5 million, being 0.5 per cent of the aggregate principal amount of the Third Tranche Panda Bonds.

Based on (1) the historical prices of the Underwriting and Advisory Services provided by EB Securities to our Group (including with respect to the issuance of the Panda Bonds and the Listing), (2) the projections for our Group's financing needs given its expected business growth and development over the next three years and (3) the expected size of the Global Offering, our Directors estimate that the aggregate amount of underwriting commission, and the aggregate amount of sponsor fees and financial advisory service fees under the Underwriting and Advisory Services Framework Agreement will not exceed the following caps for the three years ending December 31, 2021:

	Year ending December 31,		
	2019	2020	2021
		(HK\$)	
Aggregate amount of underwriting commission	15,000,000	15,000,000	15,000,000
Aggregate amount of sponsor fees and financial advisory service fees	5,000,000	5,000,000	5,000,000

### *Hong Kong Listing Rules requirements*

Since the highest of all applicable percentage ratios for the transactions under the Underwriting and Advisory Framework Agreement calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules is more than 0.1% but less than 5%, the transaction under the Underwriting and Advisory Services Framework Agreement are continuing connected transactions subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

### **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

Following the Listing, the following transactions will be regarded as continuing connected transactions subject to reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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## CONNECTED TRANSACTIONS

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### Transactions in relation to deposit services

#### *Connected persons and relationship*

China Everbright Group is a controlling shareholder of CEIL, which is in turn the Controlling Shareholder of our Company. China Everbright Group is therefore an associate of CEIL and a connected person of our Company under the Hong Kong Listing Rules.

#### *Background*

In the ordinary and usual course of business, we have entered into and, following the Listing, expect to continue to enter into transactions with CE Bank as procured by China Everbright Group on normal commercial terms whereby we receive deposit services (including current and fixed term deposits) within or outside the PRC from CE Bank in accordance with the rules and regulations prescribed by the PBOC and/or other relevant rules and regulations (the “**Deposit Services**”). CE Bank is a licensed commercial bank registered with the China Banking Regulatory Commission. Services rendered by CE Bank to our Group include deposit, loan and other related services.

In respect of the Deposit Services from CE Bank as procured by China Everbright Group, we entered into a framework agreement with China Everbright Group on April 15, 2019 pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, on normal commercial terms for a fixed term not exceeding three years from the date of the agreement to December 31, 2021 (“**Deposit Services Framework Agreement**”).

Under the Deposit Services Framework Agreement, China Everbright Group shall procure CE Bank to provide the Deposit Services to our Group at interest rates determined based on normal commercial terms and after arm’s length negotiations between CE Bank and our Group that are no less favorable to our Group than the terms available to us from independent third parties. Our Group will obtain quotations from CE Bank and at least two other banks for rates of deposits of an equivalent amount and for the equivalent period, and will only deposit its funds with CE Bank if the terms quoted are no less favorable than the terms quoted by such two other banks.

#### *Historical transaction amounts*

For the three years ended December 31, 2016, 2017 and 2018, the maximum daily closing balance of deposits (including interests accrued thereon) placed by our Group with CE Bank was HK\$198,770, HK\$5,606,105 and HK\$6,925,520, respectively.

#### *Caps on future transaction amounts*

Based on (1) the historical maximum daily closing balance of deposits (including interest accrued thereon) of our Group with CE Bank in previous years, (2) our Group’s business development

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## CONNECTED TRANSACTIONS

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plans and financing needs over the next three years, (3) the expected continuous growth in assets and amount of deposits of our Group, and (4) cash management needs of our Group (particularly with respect to the proceeds from any future loans granted by CE Bank to our Group and the net proceeds amounting to HK\$321.6 million to be received by our Group from the Global Offering), our Directors estimate that the maximum daily closing balance of deposit amount under the Deposit Services Framework Agreement will not exceed the following caps for the three years ending December 31, 2021:

	Year ending December 31,		
	2019	2020	2021
Maximum daily closing balance of deposits (including interests accrued thereon)	300,000,000	300,000,000	300,000,000

### *Hong Kong Listing Rules requirements*

Since the highest of all applicable percentage ratios for the transactions under the Deposit Services Framework Agreement calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceeds 5%, the transaction under the Deposit Services Framework Agreement are continuing connected transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

### **Transactions in relation to loan services**

#### *Connected persons and relationship*

China Everbright Group is a controlling shareholder of CEIL, which is in turn the Controlling Shareholder of our Company. China Everbright Group is therefore an associate of CEIL and a connected person of our Company under the Hong Kong Listing Rules.

#### *Background*

In the ordinary and usual course of business, we have entered into and, following the Listing, expect to continue to enter into transactions with CE Bank as procured by China Everbright Group on normal commercial terms whereby we receive loans (including revolving credit facility and fixed term loans) within or outside the PRC from CE Bank in accordance with the rules and regulations prescribed by the PBOC and/or other relevant rules and regulations (the "**Loan Services**"). CE Bank is a licensed commercial bank registered with the China Banking Regulatory Commission. Services rendered by CE Bank to our Group include deposit, loan and other related services.

In respect of the Loan Services from CE Bank as procured by China Everbright Group, we entered into a framework agreement with China Everbright Group on April 15, 2019 pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules, on normal commercial terms for a fixed term not exceeding three years from the date of the agreement to December 31, 2021 (the "**Loan Services Framework Agreement**").

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## CONNECTED TRANSACTIONS

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Under the Loan Services Framework Agreement, China Everbright Group shall procure CE Bank to provide the Loan Services to our Group at interest rates determined based on normal commercial terms and after arm's length negotiations between CE Bank and our Group that are no less favorable to our Group than the terms available to us from independent third parties. Our Group will obtain quotations from CE Bank and at least two other banks for rates for loans of an equivalent amount and for the equivalent period, and will only borrow funds from CE Bank if the terms quoted are no less favorable than the terms quoted by such two other banks.

### *Historical transaction amounts*

For the three years ended December 31, 2016, 2017 and 2018, the maximum daily balance of bank loans we have obtained from CE Bank (including interest accrued thereon, but excluding loans which do not require security over the Group's assets) was HK\$34,860,496, HK\$1,237,590 and nil, respectively.

### *Caps on future transaction amounts*

Based on (1) the historical amount of loans our Group obtained from CE Bank in previous years, (2) our Group's business development plans and financing needs over the next three years, and (3) the expected increase in the amount of loans required by our Group to complement the growth in our future business operation, our Directors estimate that the maximum daily closing balance of loans under the Loan Services Framework Agreement will not exceed the following caps for the three years ending December 31, 2021:

	Year ending December 31,		
	2019	2020	2021
		(HK\$)	
Maximum daily closing balance of loans (including interest accrued thereon, but excluding loans which do not require security over the Group's assets)	300,000,000	300,000,000	300,000,000

For the purpose of arriving at the above caps, we have taken into account the potential financing needs of 3 projects in the three years ending December 31, 2021, and the loan amount which we may obtain from CE Bank for each project on average is approximately HK\$100 million. The proposed cap of HK\$300,000,000 constitutes only an insignificant portion of our Company's overall funding needs for projects that commence construction in 2019 or after.

### *Hong Kong Listing Rules requirements*

Since the highest of all applicable percentage ratios for the transactions under the Loan Services Framework Agreement calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceeds 5%, the transaction under the Loan Services Framework Agreement are continuing connected transactions subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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## CONNECTED TRANSACTIONS

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### WAIVER

As the transactions under the Property Lease Framework Agreement, Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement and Underwriting and Advisory Services Framework Agreement are expected to be carried out on a continuing and recurring basis and extend over a period of time, the Directors consider that strict compliance with the announcement requirement under the Hong Kong Listing Rules would be unduly burdensome, impractical and would impose unnecessary administrative costs on us.

As the transactions under the Deposit Services Framework Agreement and Loan Services Framework Agreement are expected to be carried out on a continuing and recurring basis and extend over a period of time, the Directors consider that strict compliance with the announcement and independent Shareholders' approval requirements under the Hong Kong Listing Rules would be unduly burdensome, impractical and would impose unnecessary administrative costs on us.

Accordingly, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Hong Kong Listing Rules to (a) exempt the transactions under the Property Lease Framework Agreement, the Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement and the Underwriting and Advisory Services Framework Agreement from compliance with the announcement requirement under Rule 14A.35 of the Hong Kong Listing Rules for the three years ending December 31, 2021, subject to the condition that the annual transaction value shall not exceed the proposed annual caps set out above; and (b) exempt the transactions under the Deposit Services Framework Agreement and the Loan Services Framework Agreement from compliance with the announcement and independent Shareholders' approval requirements under Rules 14A.35 to 14A.48 of the Hong Kong Listing Rules for the three years ending December 31, 2021, subject to the condition that the annual transaction value shall not exceed the proposed annual caps set out above. In addition, we will comply with the applicable provisions under Rules 14A.34, 14A.49, 14A.51 to 14A.59 and 14A.71(6) of the Hong Kong Listing Rules. Upon the expiry of the waiver after December 31, 2021, we will comply with the applicable provisions of Chapter 14A of the Hong Kong Listing Rules as amended from time to time or apply for relevant waivers.

Furthermore, given (1) the nature of the Deposit Services and Loan Services rendered under the Deposit Services Framework Agreement and the Loan Services Framework Agreement and (2) our Group's financing needs to efficiently facilitate business operations, we are of the view that the caps set for both the Deposit Services and Loan Services will be more appropriately expressed in terms of a maximum daily closing balance of deposits and a maximum daily closing balance of loans, rather than on an annual basis, under the Deposit Services Framework Agreement and the Loan Services Framework Agreement.

In the event of any future amendments to the Hong Kong Listing Rules imposing more stringent requirements than those applicable as at the Latest Practicable Date on the continuing connected transactions, we will take immediate steps to ensure compliance with such new requirements within a reasonable time. We will also comply with the applicable requirements under the Hong Kong Listing

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## **CONNECTED TRANSACTIONS**

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Rules if any of the respective proposed annual caps set out above are exceeded, or when the Tenancy Agreements, Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement, Deposit Services Framework Agreement, Loan Services Framework Agreement and Underwriting and Advisory Services Framework Agreement are renewed or when there is a material change under the terms of such agreements.

### **CONFIRMATION FROM OUR DIRECTORS**

Our Directors (including our independent non-executive Directors) are of the opinion that (i) the transactions under the Property Lease Framework Agreement, Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement, Deposit Services Framework Agreement, Loan Services Framework Agreement and Underwriting and Advisory Services Framework Agreement have been entered into, and will be carried out, in the ordinary and usual course of business of the Company and on normal commercial terms or better (or terms no less favorable to the Company than terms available to or from independent third parties); (ii) the transactions under the Property Lease Framework Agreement, Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement, Deposit Services Framework Agreement, Loan Services Framework Agreement and Underwriting and Advisory Services Framework Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole; and (iii) the proposed caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **CONFIRMATION FROM THE JOINT SPONSORS**

The Joint Sponsors are of the view that (i) the terms of the Property Lease Framework Agreement, Sludge Treatment and Hazardous Waste Treatment Services Framework Agreement, Deposit Services Framework Agreement, Loan Services Framework Agreement and Underwriting and Advisory Services Framework Agreement are in the ordinary and usual course of our business, on normal commercial terms or better (or terms no less favorable to the Company than terms available to or from independent third parties) and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and (ii) the proposed caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

Our Board consists of seven Directors, including two executive Directors, one non-executive Director and four independent non-executive Directors. Our executive Directors, non-executive Director and independent non-executive Directors will be subject to rotation and re-election at the annual general meetings of the Company in accordance with the Bye-Laws.

The following table sets out information in respect of our Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Principal duties</u>	<u>Date of first joining the CEIL Group</u>	<u>Date of appointment as a Director</u>
Wang Tianyi (王天義)	56	Non-executive Director and Chairman	Overseeing the functioning of the Board; formulating the overall corporate strategies, financial objectives and direction of our Group; establishing goals for management and reviewing their performance; approving annual budgets; and ensuring that good corporate governance practices and procedures are established	February 2010	December 12, 2014
An Xuesong (安雪松)	48	Executive Director and Chief Executive Officer	Overall management of the Group by establishing annual operating targets and monitoring their execution; responsible for investment, business development, internal control and risk management	May 2002	December 12, 2014
Luo Junling (羅俊嶺)	45	Executive Director and Chief Financial Officer	Responsible for financial management and accounting related matters of our Group	November 2002	May 10, 2018

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Principal duties	Date of first joining the CEIL Group	Date of appointment as a Director
Zhai Haitao (翟海濤)	50	Independent non-executive Director	Supervising the management of the Group	January 2011	August 14, 2015
Lim Yu Neng Paul (林御能)	56	Independent non-executive Director	Supervising the management of the Group	December 2014 <sup>(1)</sup>	July 31, 2007 <sup>(2)</sup>
Cheng Fong Yee (鄭鳳儀)	62	Independent non-executive Director	Supervising the management of the Group	December 2014 <sup>(1)</sup>	July 31, 2007 <sup>(2)</sup>
Hao Gang (郝剛)	60	Independent non-executive Director	Supervising the management of the Group	March 2018	March 16, 2018

*Notes:*

- (1) The dates of first joining our Group with respect to Mr. Lim Yu Neng Paul and Ms. Cheng Fong Yee refer to the date of completion of the Reverse Takeover, i.e. December 12, 2014, when Mr. Lim and Ms. Cheng continued to be independent directors of our Company.
- (2) Mr. Lim and Ms. Cheng were appointed as independent directors of HanKore prior to the Reverse Takeover.

### Non-executive Director and Chairman

**Mr. Wang Tianyi (王天義)**, aged 56, has been our non-executive Director and chairman of our Board since February 23, 2017. He was previously our executive Director and chief executive officer between December 2014 and August 2015, and became our executive Director and chairman of our Company in August 2015. Mr. Wang is responsible for overseeing the functioning of the Board, exercising control over the quality and timeliness of the flow of information between the Management and the Board and ensuring compliance with our Group's guidelines on corporate governance. Mr. Wang currently serves as a director of two operating subsidiaries engaging in wastewater treatment projects (which are Everbright Water (Jiangyin) Limited and Everbright Water (Xinyi) Limited) and Everbright Reusable Water (Jiangyin) Limited, our operating subsidiary engaging in reusable water projects.

Mr. Wang joined the board of directors of CEIL as an executive director in February 2010, and has been re-designated as chief executive officer of CEIL from January 1, 2018. Prior to joining the Group, he was the dean of the Shandong Academy of Sciences (山東省科學院) and had been a professor of the School of Economics and Management of Yantai University of Shandong Province (山東省煙臺大學) between March 2000 and February 2003. He is currently a part-time professor of Tsinghua University and a Co-Director of the Center for Public-Private Partnership of Tsinghua University. He is also a member of the United Nations Economic Commission for Europe Public Private Partnership Business Advisory Board, a member of the China Council for International Cooperation on Environment and Development and a member of China Business Center Advisory Council of the National University of Singapore.



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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Wang obtained a bachelor's degree in electronics in July 1985, a master's degree in management in June 1988, and a doctorate degree in engineering in June 1997 from Tsinghua University (清華大學).

### Executive Directors

**Mr. An Xuesong (安雪松)**, aged 48, has been our executive Director and chief executive officer of our Company since August 14, 2015 and is responsible for the overall management of our Group by establishing annual operating targets and monitoring their execution, investment, business development, internal control and risk management. Mr. An currently serves as a director of three operating subsidiaries engaging in wastewater treatment projects (which are Everbright Water (Jiangyin) Limited; Everbright Water (Xinyi) Limited; and Everbright Water Treatment (Jiangyin) Limited); one operating subsidiary engaging in wastewater treatment, reusable water and sludge treatment and disposal projects, Everbright Water (Dalian) Co., Ltd; Everbright Sponge City Development (Zhenjiang) Limited, our operating subsidiary engaging in sponge city construction projects; an operating subsidiary engaging in water environment technologies projects, Beijing Hankesen Environmental Technology Co., Ltd; and one operating subsidiary engaging in EPC construction consultancy work and other services, Jiangsu Tongyong Environment Engineering Co., Ltd. Mr. An also serves as a director and chairman of Beijing Everbright Water Investment Management Co., Ltd. Mr. An also serves as chairman of the board of Xuzhou Design Institute.

Mr. An joined the CEIL Group in May 2002 and has been working in the CEIL Group for over 15 years. He has since served as the assistant general manager of CEIL and the general manager of the investment management department of CEIL between January 2010 and December 2014. He has been appointed as deputy general manager of CEIL since March 2015 responsible for the management of the CEIL Group's environmental water business. Mr. An also previously held directorships in a number of operating subsidiaries of the CEIL Group's envirotech, environmental energy and greentech business lines. Prior to joining the CEIL Group, Mr. An worked at Guangdong Technology Venture Capital Group Co., Ltd between July 2000 and April 2002.

Mr. An obtained a master of business administration from Jinan University (暨南大學) in January 2000. He has been a certified public accountant in the PRC with the Chinese Institute of Certified Public Accountants since December 2003 and a certified international internal auditor with the China Institute of Internal Auditors since November 2001.

**Mr. Luo Junling (羅俊嶺)**, aged 45, has been appointed as executive Director of our Company since May 10, 2018, and as the chief financial officer of our Company since February 23, 2017. Mr. Luo has recently been re-elected at the annual general meeting of our Company held on April 12, 2019. He is mainly responsible for the financial management and accounting related matters of the Group.

Mr. Luo currently serves as a director of 24 operating subsidiaries engaging in wastewater treatment projects (which are Everbright Water (Qingdao) Limited; Everbright Water (Zibo) Limited; Everbright Water (Ji'nan) Limited; Everbright Water (Boxing) Limited; Everbright Water (Zibo

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## DIRECTORS AND SENIOR MANAGEMENT

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Zhoucun) Water Purification Co., Ltd; Everbright Water (Lingxian) Limited; Everbright Water (Zhangqiu) Limited; Everbright Water (Juxian) Limited; Everbright Water (Zhangqiu) Operating Limited; Everbright Water (Beijing) Limited; Everbright Water (Binzhou) Limited; Everbright Water Purification Nanjing Limited; Everbright Water (Suzhou) Limited; Everbright Water (Yangzhou) Limited; Everbright Water (Kunshan) Limited; Everbright Water (Xianyang) Limited; Everbright Water (Lianyingang) Limited; Everbright Water (Nanjing) Limited; Dalian Pulandian Area Tiexi EW Waste Water Treatment Co., Ltd; Dalian Bonded Area EW Water Co., Ltd; Everbright Water (Jiangyin) Limited; Sanmenxia Everbright Water Limited; Everbright Water (Laiyang) Limited and Everbright Water Treatment (Jiangyin) Limited); Qingdao Haibohe Water Operating Limited, a company engaging in wastewater treatment projects in which we hold 49% interest in; Everbright Sponge City Development (Zhenjiang) Limited, our operating subsidiary engaging in sponge city construction projects; six operating subsidiaries engaging in wastewater treatment, reusable water and sludge treatment and disposal projects (which are Panjin City Waste Water Treatment Co., Ltd; Anshan City Water Operating Co., Ltd. Dalian Pulandian Area EW Water Co., Ltd; Dalian Zhuanghe EW Water Co., Ltd; Dandong Dongda Waste Water Treatment Co., Ltd; and Dalian Siergou Water Co., Ltd); seven operating subsidiaries engaging in wastewater treatment and reusable water projects (which are Everbright Water (Ji'nan Licheng) Limited; Everbright Water (Dezhou) Limited; Everbright Reusable Water (Nanjing) Limited; Dalian Lvshun Sanjianpu Waste Water Treatment Co., Ltd; Tongliao City Northern Waste Water Treatment Co., Ltd; Everbright Water Operating (Xinyi) Limited; and Everbright Industrial Waste Water Treatment Nanjing Limited); Shenyang Hunnan EW Water Co., Ltd, our operating subsidiary engaging in wastewater treatment and sludge treatment and disposal projects; Everbright Reusable Water (Jiangyin) Limited, our operating subsidiary engaging in reusable water projects; Zibo Everbright Water Energy Development Company Limited, our operating subsidiary engaging in wastewater source heat pump projects; Everbright Water Technology Development (Nanjing) Limited, our operating subsidiary engaging in water environment technologies projects; three operating subsidiaries engaging in EPC construction consultancy work and other services (which are Jiangsu Tongyong Environment Engineering Co., Ltd; Everbright River Basin Remediation (Nanjing) Limited; and the Xuzhou Design Institute); and Beijing Everbright Water Investment Management Co., Ltd, our operating subsidiary engaging in EPC construction consultancy work and other services. Mr. Luo also serves as a director and general manager of Everbright Water (Dalian) Co., Ltd, our operating subsidiary engaging in wastewater treatment, reusable water and sludge treatment and disposal projects. Mr. Luo is also appointed as the legal representative and chairman of Dezhou Everbright Water Pipeline Limited, an operating subsidiary engaging in EPC construction consultancy work and other services.

Mr. Luo joined the CEIL Group in November 2002. He served as the vice president of the Company between November 2014 and February 2017, the general manager of the environmental water management center at Everbright Environmental Protection (China) Limited (光大環保(中國)有限公司) between June 2013 and November 2014, the general manager at Everbright Water (Jiangyin) Limited between May 2011 and August 2014, the financial controller of China Everbright Water Investments Limited (中國光大水務投資有限公司) between June 2010 and June 2011, the financial controller of Everbright Water (Jiangyin) Limited between August 2008 and June 2010, the financial controller of Everbright Water (Qingdao) Limited between February 2007 and June 2008, financial

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## DIRECTORS AND SENIOR MANAGEMENT

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controller of Qingdao Veolia Water Company Limited (青島威立雅水務有限公司) and Qingdao EB-VW Waste Water Treatment Co. Ltd. (青島光威污水處理有限公司) (now known as Everbright Water (Qingdao) Limited) between August 2005 and June 2008, general manager of Qingdao EB-VW Waste Water Treatment Co. Ltd. (青島光威污水處理有限公司) (now known as Everbright Water (Qingdao) Limited) between September 2004 and June 2005, financial controller of Everbright Environmental Protection (Shenzhen) Company Limited (光大環保(深圳)實業有限公司) (now known as Everbright Environmental Protection (China) Limited (光大環保(中國)有限公司)) between February 2004 and June 2004, and finance manager of Fuzhou Guang Min Road and Bridge Construction and Development Co., Ltd. (福州光閩路橋建設開發有限公司) between November 2002 and February 2004. Prior to joining the Group, Mr. Luo worked in Fujian Min Xing Accounting Firm from 2001 to 2002, and in China Construction Bank, Fujian Branch from 1996 to 2000.

Mr. Luo obtained a bachelor's degree in international accounting from Shaanxi Institute of Finance and Economics (陝西財經學院) in July 1996. He has been a certified public accountant in the PRC with The Chinese Institute of Certified Public Accountants since September 2002 and a certified tax agent in the PRC with The State Administration of Taxation since August 2000.

### Independent non-executive Directors

**Mr. Zhai Haitao (翟海濤)**, aged 50, has been appointed as our independent non-executive Director since August 14, 2015, and is responsible for supervising the management of the Group. Mr. Zhai has served as an independent non-executive director of CEIL since January 2011.

Mr. Zhai has rich experience and knowledge in banking, capital markets and management, and is currently the President and Partner of Primavera Capital Group. He joined Goldman Sachs Asia LLC in June 2000, became the chief representative of Goldman Sachs Beijing Office in October 2003, and was subsequently promoted as the managing director of Goldman Sachs Asia LLC.

Mr. Zhai obtained a bachelor of arts degree in economics from Peking University (北京大學) in July 1990, a master's degree in international affairs from Columbia University in February 2000, and a master of business administration from New York University in September 2000.

**Mr. Lim Yu Neng Paul (林御能)**, aged 56, was first appointed as our independent Director on July 31, 2007, and continued to be our independent non-executive Director upon completion of the Reverse Takeover in December 2014. Mr. Lim has recently been re-elected at the annual general meeting of our Company held on April 25, 2018. Mr. Lim is responsible for supervising the management of the Group.

Mr. Lim was an independent director of our Company (which was then known as HanKore Environmental Tech Group Limited (formerly known as Bio-Treat Technology Limited)) from July 2007 to June 2010, was subsequently appointed the interim acting chief executive officer and executive director from June 2010 to May 2011, was re-designated a non-executive director from May 2011 to February 2013, and subsequently appointed as lead independent director of HanKore from February 2013 to December 2014.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Lim has been serving as an independent director of Golden Energy and Resources Limited (formerly known as United Fiber System Limited) (a listed company on the SGX-ST Main Board) since April 2015, and a director of Nippecraft Limited (a listed company on the SGX-ST Catalist Board). Mr. Lim has rich banking experience. He has been the managing director of SBI Ven Capital Pte. Ltd. since January 2016. He was the commissioner and then the president commissioner of PT BNI Securities from 2013 to 2016 and was an advisor at PT BNI Securities between 2010 and 2013, and has previously been appointed as the managing director, and subsequently as advisor, of Leafgreen Capital Partners Pte. Ltd. in July 2012. Mr. Lim also served as a consultant to Deutsche Bank Singapore between 2003 and 2008, and Morgan Stanley Asia (Singapore) Pte Ltd between August 2008 and July 2010. Prior to that, he held various management positions at Salomon Smith Barney and Bankers Trust between 1993 to 2003.

Mr. Lim obtained a bachelor of science degree in computer science in May 1985, and his master of business administration degree in finance in December 1986 from the University of Wisconsin, Madison, USA. He has also been a chartered financial analyst with the Institute of Chartered Financial Analysts of the United States of America since September 1991.

**Ms. Cheng Fong Yee (鄭鳳儀)**, aged 62, was first appointed as our independent Director on July 31, 2007, and continued to be an independent Director upon completion of the Reverse Takeover in December 2014. Ms. Cheng has recently been re-elected at the annual general meeting of our Company held on April 25, 2018. Ms. Cheng is responsible for supervising the management of the Group.

Ms. Cheng has been the senior consultant of AsiaOne Insurance Agency Pte. Ltd. in Singapore since October 2010 and has also been the chief consultant of the Cambodia Branch of AsiaOne Insurance Agency Pte. Ltd. since October 2012. She was a director of Aon Singapore Pte Ltd between June 1997 and June 2007. She has been qualified in general insurance and has been admitted as an Associate of the Australian Insurance Institute since August 1987.

**Ms. Hao Gang (郝剛)**, aged 60, has been appointed our independent non-executive Director since March 16, 2018, and is responsible for supervising the management of the Group.

Ms. Hao has been an associate professor at the department of management sciences at College of Business, the assistant dean of the College of Business, City University of Hong Kong and the co-director of the CityU-TsinghuaU EMBA/MPA dual degree program at the College of Business, City University of Hong Kong. Ms. Hao also worked in Techno-Economic Research Institute of National Economic Commission of the PRC.

Ms. Hao obtained a bachelor of science degree in mathematics from Sichuan University (四川大學) in May 1982, a master's degree in engineering from Tianjin University (天津大學) in December 1984, and a doctorate degree in philosophy from the University of Pittsburgh in August 1993.

Save as disclosed herein, each of our Directors confirms that he/she (1) did not hold other positions in our Company or members of our Group as at the Latest Practicable Date; (2) had no other

## DIRECTORS AND SENIOR MANAGEMENT

relationship with any Directors, senior management, substantial shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date; (3) had not held any other directorships in the three years immediately preceding the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas; and (4) there are no other matters concerning our Directors' appointment that need to be brought to the attention of our Shareholders and the Hong Kong Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules. As at the Latest Practicable Date, save as the interests of our Directors in our Shares which are disclosed in "Appendix V — Statutory and General Information — D. Further Information about our Directors and Substantial Shareholders" in this Prospectus, each of our Directors did not have any interest in our Shares within the meaning of Part XV of the SFO.

### SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table sets out certain information regarding the senior management of our Company (other than the executive Directors):

Name	Age	Position	Principal duties	Date of first joining CEIL Group	Date of first appointment as senior management of our Company
Wang Yuexing (王悅興)	50	Vice President	Responsible for engineering management of our Group	November 2006	February 19, 2016
Wang Guanping (王冠平)	46	Vice President	Responsible for technology management and research and development of our Group	May 2013	February 19, 2016
Zhang Guofeng (張國鋒)	42	Vice President	Responsible for the investment and business development of our Group	August 2004	February 23, 2017
Sun Linbo (孫林波)	48	Vice President	Responsible for project operations management of our Group	November 2006	February 23, 2017
Niu Kesheng (牛克勝)	55	Assistant to Chief Executive Officer and General Manager of the Operations Management Department	Responsible for project operations management of our Group	December 2005	May 10, 2018

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Position	Principal duties	Date of first joining CEIL Group	Date of first appointment as senior management of our Company
Peng Pei (彭珮)	32	Legal Counsel and Company Secretary	Responsible for legal and company secretarial matters of our Group	May 2015	January 20, 2017

**Mr. Wang Yuexing** (王悅興), aged 50, has been appointed vice president of our Company since February 28, 2018. He is mainly responsible for engineering management of our Group. Mr. Wang was previously a vice president of our Company between February 2016 and February 2017, and subsequently as engineering director of our Company between February 2017 and February 2018.

Mr. Wang currently serves as a director of seven operating subsidiaries engaging in wastewater treatment projects (which are Everbright Water (Zibo) Limited; Everbright Water (Ji'nan) Limited; Everbright Water (Nanning) Limited; Everbright Water (Boxing) Limited; Everbright Water (Zibo Zhoucun) Water Purification Co., Ltd; Everbright Water (Zhangqiu) Operating Limited; and Everbright Water (Laiyang) Limited); Everbright Sponge City Development (Zhenjiang) Limited, our operating subsidiary engaging in sponge city construction projects; three operating subsidiaries engaging in wastewater treatment and reusable water projects (which are Everbright Water (Ji'nan Licheng) Limited; Everbright Water Operating (Xinyi) Limited; and Everbright Industrial Waste Water Treatment Nanjing Limited); Ji'nan Everbright Water Supply Limited, our operating subsidiary engaging in water supply projects; Zibo Everbright Water Energy Development Company Limited, our operating subsidiary engaging in wastewater source heat pump projects; Everbright Water Technology Development (Nanjing) Limited, our operating subsidiary engaging in water environment technologies projects; Everbright Water Suizhou Water Environment Management Limited and Jiangsu Tongyong Environment Engineering Co., Ltd., our operating subsidiaries engaging in EPC construction consultancy work and other services; and the Xuzhou Design Institute.

Mr. Wang joined the CEIL Group in November 2006, and served various managerial positions within the CEIL Group's environmental energy and environmental water businesses, including his appointment as the plant manager of Ji'nan Waste Water Treatment Project (Plant 1) in December 2006. Prior to his appointment as vice president in our Company, he previously served as the deputy general manager of the technology research and development center of Everbright Environmental Protection (China) Limited for which he was appointed in January 2013, and of Everbright Environmental Protection Engineering (Shenzhen) Limited for which he was appointed in January 2010.

Mr. Wang obtained a bachelor's degree in civil engineering from South China University of Technology (華南理工大學) in July 1991, a master of business administration from Shandong University (山東大學) in June 2005, and a master's degree in environmental engineering from Tsinghua University (清華大學) in January 2014. He has been an engineer certified by the MOHURD of the PRC since December 2009 and a senior engineer certified with the Ji'nan City Engineering and Technical Positions Senior Vetting Committee (濟南市工程技術職務高級評審委員會) in the PRC since October 2002.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Wang Guanping (王冠平)**, aged 46, has been appointed vice president of our Company since February 28, 2018. He is mainly responsible for technology management and research and development of our Group. Mr. Wang was previously vice president of our Company between February 2016 and February 2017, and subsequently as technical director of our Company between February 2017 and February 2018.

Mr. Wang currently serves as a director of four operating subsidiaries engaging in wastewater treatment and reusable water projects (which are Everbright Water (Nanning) Limited; Everbright Water Operating (Xinyi) Limited; Dalian Lvshun Sanjianpu Waste Water Treatment Co., Ltd and Everbright Industrial Waste Water Treatment Nanjing Limited); and two operating subsidiaries engaging in EPC construction consultancy work and other services (which are Everbright River Basin Remediation (Nanjing) Limited; and Everbright Water Suizhou Water Environment Management Limited) and Dalian Siergou Water Co. Ltd, our operating subsidiary engaging in wastewater treatment and reusable water and sludge treatment and disposal projects. Mr. Wang also serves as a director and general manager of Everbright Water Technology Development (Nanjing) Limited, our operating subsidiary engaging in water environment technologies projects; and the Xuzhou Design Institute.

Mr. Wang joined the CEIL Group in May 2013. He has previously served as dean's assistant of Everbright Environmental Research Institute between January 2015 and February 2016. He also served as chief technology officer of China Environmental Protection Science & Technology Holdings Limited (中國環保科技控股有限公司) between July 2012 and April 2013, deputy chief engineer of Shenzhen Liyuan Water Design & Consultant Limited (深圳市利源水務設計諮詢有限公司) between July 2006 and June 2012, and chief engineer of the operation branch of Wuhan Kaidi Water Services Co., Ltd. (武漢凱迪水務有限公司) between January 2004 and June 2006.

Mr. Wang obtained a bachelor's degree in water supply and sewerage engineering from Wuhan Urban Construction Institute (武漢城市建設學院) (now known as Huazhong University of Science and Technology (華中科技大學)) in July 1994, a master's degree in municipal engineering from Tongji University (同濟大學) in July 2000 and a doctorate degree in environmental engineering from Tsinghua University in January 2004. He has been a certified senior engineer with Wuhan City Bureau of Human Resources in the PRC since December 2006.

**Mr. Zhang Guofeng (張國鋒)**, aged 42, has been appointed vice president of our Company since May 10, 2018. He is mainly responsible for investment and business development of our Group. Mr. Zhang was previously an assistant to the chief executive officer of our Company between February 2017 and May 2018.

Mr. Zhang joined the CEIL Group in August 2004 and was appointed as deputy general manager at Everbright Water (Zibo) Limited between February 2009 and June 2010. He served as general manager of the investment development department at Everbright Environmental Protection (China) Limited (光大環保(中國)有限公司) between February 2016 and February 2017, and was appointed the supervisor of Everbright Environmental Energy (Xintai) Ltd (新泰光大環保能源有限公司)

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## DIRECTORS AND SENIOR MANAGEMENT

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in January 2016. Mr. Zhang was also appointed as a director of Beijing Everbright Water Investment Management Co., Ltd., an operating subsidiary engaging in EPC construction consultancy work and other services.

Mr. Zhang obtained a bachelor's degree in engineering from Qingdao University of Science and Technology (青島科技大學) in July 1998. He has been a certified international accountant with the China Association of Chief Financial Officers since March 2010, a member of the Association of International Accountants since July 2012 and a certified management accountant with the Institute of Certified Management Accountants in the USA since March 2013.

**Mr. Sun Linbo (孫林波)**, aged 48, has been appointed vice president of our Company since May 10, 2018. He is mainly responsible for project operations management of our Group. Mr. Sun was previously an assistant to the chief executive officer of our Company between February 2017 and May 2018. Mr. Sun currently serves as a director of seven operating subsidiaries engaging in wastewater treatment projects (which are Everbright Water (Zhangqiu) Operating Limited, Sanmenxia Everbright Water Limited; Everbright Water (Zhangqiu) Limited; Everbright Water (Xianyang) Limited; Everbright Water (Dezhou) Limited; Everbright Water (Lingxian) Limited and Everbright Water (Ji'nan) Limited; Ji'nan Everbright Water Supply Limited, our operating subsidiary engaging in water supply projects; Dezhou Everbright Water Pipeline Limited, an operating subsidiary engaging in EPC construction consultancy work and other services; and Everbright Water (Ji'nan Licheng) Limited, our operating subsidiary engaging in wastewater treatment and reusable water projects. Mr. Sun Linbo is also the chairman of Everbright Water (Beijing) Limited.

Mr. Sun joined the CEIL Group in November 2006 as the deputy plant manager of the Ji'nan Wastewater Treatment Project (Plant 2) and was appointed as the deputy general manager, and subsequently as general manager of Everbright Water (Ji'nan) Limited, in January 2008 and May 2011, respectively. Mr. Sun obtained a bachelor's degree in hydrology engineering and construction from Shandong Industrial University (山東工業大學) in July 1993, and a master's degree in environmental engineering from Shandong University (山東大學) in December 2008. He has been a certified cost engineer with the MOHURD in the PRC since October 2004 and an engineering and technical application researcher certified with the Shandong Engineering and Technical Positions Senior Vetting Committee (山東省工程技術職務高級評審委員會) since March 2014.

**Mr. Niu Kesheng (牛克勝)**, aged 55, has been appointed assistant to the chief executive officer of our Company since May 10, 2018 and has additionally been appointed general manager of the operations management department on April 10, 2019. He is mainly responsible for project operations management of our Group. Mr. Niu currently serves as a director of three operating subsidiaries engaging in wastewater treatment projects (which are Everbright Water (Qingdao) Limited; Everbright Water (Laiyang) Limited and Everbright Water (Jiangyin) Limited); Qingdao Haibohe Water Operating Limited, a company engaging in wastewater treatment projects in which we hold 49% interest in; Zibo Everbright Water Energy Development Company Limited, our operating subsidiary engaging in wastewater source heat pump projects. Mr. Niu also serves as director and general manager for Everbright Water (Zibo) Limited, Everbright Water (Boxing) Limited and Everbright



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## DIRECTORS AND SENIOR MANAGEMENT

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Water (Zibo Zhoucun) Water Purification Co., Ltd, which are all operating subsidiaries of our Group engaging in wastewater treatment projects.

Mr. Niu joined the CEIL Group in December 2005. He has rich experience in operation management within the environmental protection industry, and has held various managerial positions within our Group, including as deputy general manager of Everbright Water (Zibo) Limited between April 2006 and June 2010 and as general manager of Everbright Water (Zibo) Limited since June 2010. Mr. Niu obtained a bachelor's degree in engineering on mechanical manufacturing process and equipment from Shandong University of Technology (山東理工大學) in July 1986. He has obtained the title of engineering researcher on environmental protection engineering with the Shandong Engineering and Technical Positions Senior Vetting Committee (山東省工程技術職務高級評審委員會) since March 2011.

**Ms. Peng Pei (彭珮)**, aged 32, has been appointed as the legal counsel and company secretary of our Company since January 20, 2017. For biographical details of Ms. Peng, please refer to the section entitled "Directors and Senior Management — Joint Company Secretaries" in this Prospectus.

### JOINT COMPANY SECRETARIES

Ms. Peng Pei and Ms. Ho Wing Tsz Wendy are the joint company secretaries of our Company.

**Ms. Peng Pei (彭珮)**, aged 32, is the legal counsel and one of the joint company secretaries of our Company and was appointed on January 20, 2017. She is mainly responsible for the legal and company secretarial matters of our Group.

Ms. Peng joined our Company on May 11, 2015 and serves as our Company's legal counsel and company secretary. Ms. Peng is responsible for providing legal support, regulatory and compliance advice to the Company. Ms. Peng has over eight years of experience in legal and regulatory matters, having worked in the Singapore office of Allen Glenhill LLP from January 3, 2011 to May 8, 2015. Ms. Peng obtained master of laws degrees from New York University in May 2010, National University of Singapore in June 2010 and Tsinghua University in July 2009, and a bachelor of laws degree from Tianjin University in July 2007. She was admitted to the PRC Bar in March 2011 and the State Bar of California, United States in December 2012. Ms. Peng is also an associate member of Chartered Secretaries Institute of Singapore and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Ms. Peng has not been a director of any publicly listed company in the three years immediately preceding the Latest Practicable Date.

**Ms. Ho Wing Tsz Wendy (何詠紫)**, is one of the joint company secretaries of our Company and was appointed on August 1, 2018.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Ho is a director of corporate services division of Tricor Services Limited. Ms. Ho has over 20 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Ho is currently the company secretary or joint company secretary of five listed companies on the Hong Kong Stock Exchange, namely, Wynn Macau, Limited 永利澳門有限公司 (stock code: 1128), Bank of Chongqing Co., Ltd. 重慶銀行股份有限公司 (stock code: 1963) and Everbright Grand China Assets Limited 光大永年有限公司 (stock code: 3699). Ms. Ho is also the company secretary of the Manager of RREEF China Commercial Trust 睿富中國商業房地產投資信託基金 (stock code: 625), a real estate investment trust listed in Hong Kong, and the company secretary of the trustee manager of Jinmao Hotel 金茂酒店 and its company Jinmao (China) Hotel Investments and Management Limited 金茂 (中國) 酒店投資管理有限公司 (stock code: 6139).

Ms. Ho is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from The Hong Kong Institute of Chartered Secretaries. Ms. Ho graduated from Lingnan College (now known as Lingnan University).

### COMMITTEES UNDER THE BOARD OF DIRECTORS

#### *Audit Committee*

We have established an audit committee with terms of reference in compliance with Rule 3.21 of the Hong Kong Listing Rules and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the Singapore's Code of Corporate Governance. The primary duties of the audit committee mainly include making recommendations to our Board on the appointment or reappointment and removal of external auditors, reviewing and supervising the financial reporting process, and overseeing the risk management and internal control systems of our Company.

The audit committee consists of four independent non-executive Directors, namely Mr. Lim Yu Neng Paul, Mr. Zhai Haitao, Ms. Cheng Fong Yee and Ms. Hao Gang, with Mr. Lim Yu Neng Paul being the chairman of the committee. As required under Rules 3.10(2) and 3.21 of the Hong Kong Listing Rules, Mr. Lim Yu Neng Paul, being the chairman of the committee, holds the appropriate professional qualifications.

#### *Remuneration Committee*

We have established a remuneration committee with terms of reference in compliance with Rule 3.25 of the Hong Kong Listing Rules and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the Singapore's Code of Corporate Governance. The primary duties of the remuneration committee mainly include making recommendations to our Board on the remuneration policy framework and guidelines for remuneration relating to all our Directors and senior management, recommending specific remuneration packages for each of our Directors and

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## DIRECTORS AND SENIOR MANAGEMENT

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senior management, and reviewing the Group's obligation in the event of a termination of the service contracts of our Directors and senior management.

The remuneration committee consists of Mr. Wang Tianyi, the chairman of the Board and a non-executive Director, and three independent non-executive Directors, namely Mr. Lim Yu Neng Paul, Mr. Zhai Haitao and Ms. Cheng Fong Yee, with Ms. Cheng Fong Yee being the chairlady of the committee.

### *Nominating Committee*

We have established a nominating committee with terms of reference in compliance with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the Singapore's Code of Corporate Governance. The primary duties of the nominating committee mainly include establishing procedures and making recommendations to the Board on the appointment of Directors, reviewing and determining the independence of the Directors, reviewing the structure, size and composition of our Board on a regular basis, and managing Board succession.

The nominating committee consists of one non-executive Director and two independent non-executive Directors, namely Mr. Wang Tianyi, Mr. Lim Yu Neng Paul and Mr. Zhai Haitao, with Mr. Zhai Haitao being the chairman of the committee.

### *Strategy Committee*

We have established a strategy committee, whose main objective is to assist the Board in overseeing responsibilities relating to the planning and implementation of our Company's development strategies. The primary duties of the strategy committee mainly include assisting the Board in providing strategic direction and overseeing our strategic planning, reviewing strategic objectives proposed by our Company's senior management and overseeing management's performance in this regard, reviewing and recommending to the Board annual business plans, budget and capital and debt structure of our Company, reviewing our Company's financial and operational performance, and considering sustainability issues in formulating strategies.

The strategy committee consists of (i) Mr. Wang Tianyi, the chairman of the Board and a non-executive Director; (ii) Mr. An Xuesong, our chief executive officer and an executive Director; (iii) Mr. Luo Junling, our chief financial officer and an executive Director; and (iv) Ms. Hao Gang, our independent non-executive Director, with Mr. Wang Tianyi being the chairman of the committee.

### **Management Committee**

We have established a management committee, which is the decision-making authority for the daily operations, management and personnel matters for our Group. The primary duties of the management committee mainly include managing daily business operations, formulating and

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## DIRECTORS AND SENIOR MANAGEMENT

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implementing annual work tasks and medium-term development plans, reviewing and discussing our Group's investment proposals on new projects, appointment and removal of key management personnel at the headquarters and subsidiary levels, monitoring status of financial budget execution etc.

The management committee consists of (i) Mr. An Xuesong, our chief executive officer and an executive Director; (ii) Mr. Luo Junling, our chief financial officer and an executive Director; (iii) Mr. Wang Yuexing, our vice president; (iv) Mr. Wang Guanping, our vice president; (v) Mr. Zhang Guofeng, our vice president; (vi) Mr. Sun Linbo, our vice president; (vii) Mr. Niu Kesheng, our assistant to the chief executive officer; (viii) Mr. An Pinglin, our technical director; and (ix) Mr. Wu Zhiguo, general manager of our Liaoning Regional Management Centre, with Mr. An Xuesong being the chairman of the committee.

### MANAGEMENT PRESENCE

Since the principal business operations of our Group are conducted in the PRC, members of our senior management (other than Mr. An Xuesong and one of the joint company secretaries, who are ordinarily resident in Hong Kong and Ms. Peng Pei, who is ordinarily resident in Singapore) are, and are expected to continue to be, based in the PRC. Further, our executive Directors have a vital role in our Group's operations and it is crucial for them to remain in close proximity to our Group's central management located in the PRC. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Hong Kong Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see "Waivers from Strict Compliance with the Hong Kong Listing Rules — Management Presence" in this Prospectus.

### CORPORATE GOVERNANCE

Our Company intends to comply with all code provisions under the Principles of Good Governance, Code Provisions and Recommended Best Practices in Appendix 14 to the Hong Kong Listing Rules after the Listing.

### DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Our Directors and senior management receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf.

The aggregate amount of remuneration (including fees, salaries, allowances and benefits in kind, contributions to pension plans and discretionary bonuses) received by the five highest paid individuals for the years ended December 31, 2016, 2017 and 2018 was approximately HK\$10,312,000, HK\$12,965,000 and HK\$12,210,000, respectively.

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## DIRECTORS AND SENIOR MANAGEMENT

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The aggregate amount of remuneration (including fees, salaries, allowances and benefits in kind, contributions to pension plans and discretionary bonuses) paid to our Directors for the years ended December 31, 2016, 2017 and 2018 was approximately HK\$8,313,000, HK\$9,267,000 and HK\$8,630,000, respectively. Further, none of our Directors or senior management waived any remuneration during the aforesaid periods.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2016, 2017 and 2018 by our Company to our Directors or senior management.

No remuneration was paid to, or received by, our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors during the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waive any emoluments during the same period.

Under the arrangements currently in force, we expect the Directors' fees (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) payable by our Company for the year ended December 31, 2019 to be approximately HK\$9,233,000, and the aggregate remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) payable by our Company to our senior management for the year ended December 31, 2019 to be approximately HK\$12,977,000.

### *Remuneration Policy*

The remuneration packages of our executive Directors, non-executive Director and senior management comprise salaries, bonuses and benefits in kind that are dependent on the performance of our Group. The independent non-executive Directors are paid directors' fees and benefits in kind in accordance with their level of contribution, taking into account factors such as effort and time spent for serving on the Board and the Board committees, as well as the responsibilities and obligations of the Directors.

Our Directors and senior management receive compensation in relation to the performance of our Group. Our Group also reimburses them for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to business operations. Our Group regularly reviews and determines the remuneration and compensation packages of its Directors and senior management, by reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities of our Directors and senior management and the performance of our Group. Our remuneration committee will review and determine the remuneration and compensation packages of our Directors with reference to their qualification and experience, responsibilities, workload, level of commitment and time devoted to the Group and the performance of our Group.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPLIANCE ADVISER

Our Company has engaged Anglo Chinese Corporate Finance, Limited as our compliance adviser (the “**Compliance Adviser**”) pursuant to Rule 3A.19 of the Hong Kong Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where our Company’s business activities, developments or results deviate from any forecast, estimate, or other information in this Prospectus; and
- (d) where the Hong Kong Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of its listed securities, the possible development of a false market in its securities, or any other matters the Hong Kong Stock Exchange makes an enquiry of our Company in accordance with Rule 13.10 of the Hong Kong Listing Rules.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED SHARE CAPITAL

Assuming the Over-allotment Option is not exercised, the following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following completion of the Global Offering.

<u>Authorized Share Capital</u>		<u>HK\$</u>
10,000,000,000 Shares	Shares of HK\$1.00 each	10,000,000,000
<u>Issued and to be issued, fully paid or credited as fully paid upon the completion of the Global Offering</u>		<u>Approximate percentage of issued share capital (%)</u>
	<u>HK\$</u>	
2,676,062,186 Shares in issue as of the date of this Prospectus	2,676,062,186	96.3
103,970,000 Shares to be issued under the Global Offering	103,970,000	3.7
<b>Total</b>	<b><u>2,780,032,186</u></b>	<b><u>100.0</u></b>

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and Shares are issued pursuant to the Global Offering. It also assumes that the Over-allotment Option is not exercised and does not take into account any Shares which may be allotted and issued, or repurchased pursuant to the general mandates given to the Directors for allotment, issue or repurchase of Shares as described below.

### RANKING

The Shares are ordinary shares in our share capital of our Company and rank *pari passu* in all aspects with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares after the date of this Prospectus.

### AUTHORITY TO ALLOT AND ISSUE SHARES IN THE CAPITAL OF OUR COMPANY

Pursuant to the Bermuda Companies Act and the terms of the Bye-laws and subject to the Listing Manual, our Company may from time to time by Shareholders' ordinary resolution (1) increase its capital; (2) consolidate and divide its capital into Shares of larger amount; (3) divide its Shares into classes; (4) subdivide its Shares into Shares of smaller amount; and (5) cancel any Shares which have not been taken and diminish the amount of its capital by the amount of the Shares so cancelled. In addition, our Company may reduce its share capital by Shareholders' special resolution. For more details, please see "Appendix III — Summary of the Constitution of the Company and Bermuda Company Law — 2. Bye-Laws — (a) Shares" in this Prospectus.

Pursuant to the Bermuda Companies Act and the terms of the Bye-laws, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the

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## SHARE CAPITAL

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consent in writing of the holders of not less than three-fourths of the total number of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For more details, please see “Appendix III — Summary of the Constitution of the Company and Bermuda Company Law — 2. Bye-Laws — (a) Shares” in this Prospectus.

### GENERAL MANDATE TO ISSUE SHARES

At the annual general meeting of our Company held on April 12, 2019, our Shareholders have passed a resolution (the “**Resolution**”) granting a general mandate (the “**Share Issue Mandate**”) to our Directors to under which, pursuant to the Bye-Laws and the Listing Manual, the Directors have the authority at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit to:

- (i) issue Shares whether by way of right, bonus or otherwise;
- (ii) make or grant offers, agreements or options that might or would require Shares to be issued or other transferable rights to subscribe for or purchase Shares (collectively, “**Instruments**”) including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares;
- (iii) issue additional instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalization issues; and
- (iv) (notwithstanding that the authority conferred by the Shareholders may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

provided that, the aggregate number of Shares to be issued pursuant to the Share Issue Mandate (including Shares to be issued in pursuance of Instruments made or granted pursuant to the Resolution) does not exceed fifty per cent. (50%) of the total number of issued Shares excluding treasury shares of the Company, of which the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to the Resolution) to be issued other than on a pro rata basis to existing shareholders of the Company does not exceed twenty per cent. (20%) of the total number of issued Shares excluding treasury shares of the Company.

For the purpose of determining the aggregate number of Shares that may be issued pursuant to the Share Issue Mandate, the issued share capital shall be the Company’s total number of issued Shares excluding treasury shares at the time the Resolution was passed, after adjusting for:

- (a) new Shares arising from the conversion or exercise of any convertible securities;



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## SHARE CAPITAL

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- (b) new Shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time the Resolution is passed provided the options or awards were granted in compliance with Part VII of Chapter 8 of the Listing Manual; and
- (c) any subsequent bonus issue, consolidation or subdivision of Shares.

The Share Issue Mandate shall, unless revoked or varied by our Company at a general meeting, continue in force until the conclusion of the next annual general meeting of our Company or the date by which the next annual general meeting of our Company is required by law to be held, whichever is the earlier.

For further details of the Share Issue Mandate, please refer to the section titled “Appendix V — Statutory and General Information — A. Further Information about Our Company — 4. Resolutions of the Shareholders passed at the annual general meeting of our Company on April 12, 2019” in this Prospectus.

Notwithstanding the above, the Hong Kong Listing Rules provide that a general mandate obtained from shareholders of a listed issuer in general meeting shall be subject to a restriction that the aggregate number of shares allotted or agreed to be allotted under the general mandate must not exceed the aggregate of (i) twenty per cent. (20%) of the number of issued shares of the listed issuer on the date of the resolution granting the general mandate and (ii) the number of securities repurchased by the listed issuer since the granting of the general mandate (up to ten per cent. (10%) of the shares of the listed issuer in issue on the date of passing the resolution to grant the general mandate) provided that the shareholders of the listed issuer have separately granted a general mandate to the directors of the listed issuer to add the repurchased securities to the twenty per cent. (20%) limit. As such, our Company shall comply with the requirements of the Hong Kong Listing Rules in relation to the issue of general mandate upon the Listing as the Hong Kong Listing Rules generally pose a more onerous requirement than the Listing Manual in this aspect.

### GENERAL MANDATE TO REPURCHASE SHARES

At the annual general meeting of our Company held on April 12, 2019, our Shareholders have granted a general mandate (the “**Share Buy-Back Mandate**”) to our Directors to exercise all the powers of our Company to purchase or otherwise acquire issued Shares not exceeding in aggregate ten per cent. (10%) of the total number of issued Shares at the date of the grant of the Share Buy-Back Mandate (excluding any treasury shares and any Shares held by subsidiaries of the Company in the circumstances referred to in sections 21(4), 21(4B), 21(6A) and 21(6C) of the Singapore Companies Act), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price whether by way of (a) market purchase(s) on the SGX-ST; and/or (b) off-market purchase(s) (if effected otherwise than on the SGX-ST) in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they consider fit, which scheme(s) shall, as required under the Listing Manual, satisfy all the conditions prescribed by Section 76C of the Singapore Companies Act, Chapter 50 of Singapore, in accordance with the Bermuda Companies Act and all

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## SHARE CAPITAL

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other laws and regulation and rules of the SGX-ST, as may for the time being applicable; as described below.

Unless varied or revoked by our Company in general meeting, the authority conferred on the Directors pursuant to the Share Buy-Back Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of the resolution and expiring on the earliest of:

- (i) the date on which the next annual general meeting of our Company is held;
- (ii) the date on which the next annual general meeting of our Company is required by law to be held; and
- (iii) the date on which purchases and acquisitions of Shares pursuant to the Share Buy-back Mandate are carried out to the full extent mandated.

“**Maximum Price**” in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses), which shall not exceed the Average Closing Price by more than five percent (5%),

where:

“**Average Closing Price**” means the average of the closing market prices of the Shares over the last five market days on which the Shares were transacted on the SGX-ST, before the date of the market purchase by our Company, or as the case may be, the date of the making of the offer pursuant to the off-market purchase, and deemed to be adjusted in accordance with the Listing Manual for any corporate action which occurs after the relevant five-day period;

“**date of the making of the offer**” means the date on which our Company makes an offer for the purchase or acquisition of Shares from Shareholders, stating therein the purchase price (which shall not be more than the Maximum Price) for each Share and the relevant terms of the equal access scheme for effecting the off-market purchase;

The Share Buy-Back Mandate was made in compliance with the requirements of the Listing Manual and the Singapore Takeovers Code, and in accordance with all other laws and regulations, including but not limited to the provisions of the Singapore Companies Act and the Bye-laws. In the event that our Company shall repurchase our own Shares after the Listing, we are required to comply with the more onerous requirements under both the Hong Kong Listing Rules and the Listing Manual.

For further details of the Share Buy-Back Mandate, please refer to the section headed “Appendix V — Statutory and General Information — A. Further Information about Our Company — 4. Resolutions of the Shareholders passed at the annual general meeting of our Company on April 12, 2019” in this Prospectus.

## SHARE CAPITAL

### HISTORICAL TRADING PRICES AND VOLUME OF OUR SHARES ON THE SGX-ST

The following table sets out the reported highs, lows, month ends and monthly averages of the closing trading prices and average daily trading volume of our Shares on the SGX-ST during the Track Record Period until the Latest Practicable Date. Historical Share prices may not be indicative of the prices at which the Shares will trade following completion of the Global Offering. Please refer to the section headed “Risk Factors — Risks Relating to The Listing and Our Shares — Difference in characteristics between the Singapore and Hong Kong stock markets” in this Prospectus in relation to the relevant risks.

	Per Share (S\$)				Average daily trading volume	
	High	Low	Month end	Monthly average	Shares	% of total issued Shares
<b>2016</b>						
January	0.63	0.41	0.47	0.49	2,639,700	0.10%
February	0.51	0.42	0.48	0.46	1,777,826	0.07%
March	0.55	0.47	0.50	0.50	2,610,205	0.10%
April	0.69	0.49	0.65	0.59	6,164,876	0.24%
May	0.73	0.61	0.68	0.68	4,331,410	0.17%
June	0.69	0.58	0.64	0.63	2,611,545	0.10%
July	0.68	0.59	0.60	0.64	1,613,915	0.06%
August	0.63	0.56	0.58	0.58	833,523	0.03%
September	0.63	0.56	0.60	0.59	703,490	0.03%
October	0.61	0.56	0.57	0.58	1,156,676	0.04%
November	0.57	0.49	0.49	0.53	435,359	0.02%
December	0.51	0.45	0.50	0.48	768,286	0.03%
<b>2017</b>						
January	0.51	0.41	0.43	0.46	1,200,100	0.05%
February	0.49	0.43	0.43	0.45	2,420,615	0.09%
March	0.49	0.42	0.48	0.45	1,559,313	0.06%
April	0.54	0.45	0.47	0.49	1,882,053	0.07%
May	0.51	0.46	0.47	0.48	1,005,700	0.04%
June	0.52	0.47	0.48	0.49	860,819	0.03%
July	0.52	0.48	0.49	0.50	495,281	0.02%
August	0.51	0.43	0.47	0.46	1,243,250	0.05%
September	0.48	0.42	0.43	0.44	985,485	0.04%
October	0.49	0.43	0.49	0.46	1,855,843	0.07%
November	0.49	0.43	0.45	0.45	822,759	0.03%
December	0.45	0.42	0.44	0.43	380,115	0.01%

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## SHARE CAPITAL

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	Per Share (\$)				Average daily trading volume	
	High	Low	Month end	Monthly average	Shares	% of total issued Shares
<b>2018</b>						
January	0.48	0.44	0.47	0.46	684,095	0.03%
February	0.48	0.41	0.45	0.44	578,484	0.02%
March	0.46	0.43	0.43	0.44	385,662	0.02%
April	0.43	0.39	0.42	0.41	366,657	0.01%
May	0.45	0.41	0.42	0.43	297,086	0.01%
June	0.44	0.40	0.40	0.41	203,555	0.01%
July	0.43	0.38	0.40	0.40	400,105	0.02%
August	0.43	0.38	0.39	0.39	277,943	0.01%
September	0.40	0.36	0.36	0.38	186,140	0.01%
October	0.37	0.33	0.35	0.36	501,922	0.02%
November	0.36	0.33	0.35	0.35	202,800	0.01%
December	0.36	0.30	0.30	0.33	174,175	0.01%
<b>2019</b>						
January	0.37	0.30	0.37	0.33	204,909	0.01%
February	0.38	0.34	0.35	0.35	2,522,339	0.09%
March	0.39	0.34	0.35	0.36	2,171,629	0.08%
April (up to the Latest Practicable Date)	0.36	0.34	0.35	0.36	998,236	0.04%

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised and no Shares are issued or repurchased by our Company pursuant to the Share Issue Mandate and the Share Buy-Back Mandate, the following persons will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any member of our Group:

Name	Capacity	Interests in number of Ordinary Shares	Approximate percentage of Issued Ordinary Share
CEWHL <sup>(1)</sup>	Beneficial owner	2,013,448,456	72.43%
China Everbright Environmental Protection Holdings Limited (中國光大環保控股有限公司) <sup>(1)</sup>	Interest in a controlled corporation	2,013,448,456	72.43%
CEIL <sup>(1)</sup>	Interest in a controlled corporation	2,013,448,456	72.43%
CE Hong Kong <sup>(2)</sup>	Interest in a controlled corporation	2,013,448,456	72.43%
China Everbright Group <sup>(3)</sup>	Interest in a controlled corporation	2,013,448,456	72.43%
Central Huijin Investment Limited (中央匯金投資有限責任公司) <sup>(4)</sup>	Interest in a controlled corporation	2,013,448,456	72.43%

*Notes:*

- (1) CEWHL is a wholly-owned subsidiary of China Everbright Environmental Protection Holdings Limited, which is in turn a wholly-owned subsidiary of CEIL. Accordingly, China Everbright Environmental Protection Holdings Limited and CEIL are deemed to be interested in 2,013,448,456 Shares held by CEWHL.
- (2) CE Hong Kong is the indirect controlling shareholder of CEIL and holds approximately 41.95% shares in CEIL, and is therefore deemed to be interested in 2,013,448,456 Shares held by CEWHL.
- (3) China Everbright Group holds 100% of issued shares of CE Hong Kong, and is therefore deemed to be interested in 2,013,448,456 Shares that CE Hong Kong is deemed to be interested in.
- (4) Central Huijin Investment Limited is indirectly wholly owned by the State Council of the PRC and holds 55.67% equity interest of China Everbright Group. It is therefore deemed to be interested in 2,013,448,456 Shares that CE Hong Kong is deemed to be interested in.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised and no Shares are issued or repurchased by our Company pursuant to the Share Issue Mandate and the Share Buy-Back Mandate, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis in conjunction with our Company's audited consolidated financial statements as of and for each of the years ended December 31, 2016, 2017 and 2018, together with the accompanying notes, as set forth in the Accountants' Report in Appendix I to this Prospectus.*

*The audited consolidated financial statements of our Company have been prepared in accordance with IFRS issued by the IASB. Any discrepancies in any table or elsewhere in this Prospectus between the totals shown and the sums of amounts are due to rounding. Effective for the periods beginning on or after January 1, 2018, we have applied IFRS 9 prospectively while we have adopted IFRS 15 to our financial statements using the full retrospective method of adoption. For details, see “— Principal effects of adopting new IFRS 9 and IFRS 15” and Note 2.2 to the Accountant's Report in Appendix I to this Prospectus.*

*The following discussion and analysis contains certain forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those suggested in the forward looking statements in evaluating our business. You should consider the information provided in the sections headed “Risk Factors” and “Forward-looking Statements” in this Prospectus.*

### OVERVIEW

We are a leading integrated water environmental solutions provider in the PRC, providing a comprehensive range of environmental water services including wastewater treatment, water environment treatment, integrated utilization of water resources and water ecological protection. According to Frost & Sullivan, we are the largest Central State-Owned Enterprise operating in the wastewater treatment industry in the PRC in terms of treatment capacity in 2017. Our Group was also one of only three companies in the PRC that ranked in the top 10 in both municipal wastewater treatment market and water environment management market in 2017. As of the Latest Practicable Date, we had a diversified portfolio of 111 projects, including 86 projects in operation, 13 projects under construction and 12 projects held for future development, in the water environment management segment in the PRC with the following three lines of business:

- Wastewater treatment, comprising
  - municipal wastewater treatment; and
  - industrial wastewater treatment
- Water environment treatment
- Others, mainly comprising
  - water supply

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- reusable water
- wastewater source heat pump, and
- EPC construction, consultancy work and other services

During the Track Record Period, substantially all of our projects were undertaken under service concession arrangements. For the years ended December 31, 2016, 2017 and 2018, approximately 99.6%, 100.0% and 97.9%, respectively, of our revenue was derived from service concession arrangements. For most of our service concession arrangements, we adopted either BOT or TOT project models according to the relevant service concession arrangements. As of the Latest Practicable Date, of our 86 projects in operation, 65 were BOT projects and 18 were TOT projects. For further details, see “Business — Project Models”.

Our total revenue was HK\$2,494.0 million, HK\$3,591.6 million and HK\$4,768.3 million for the years ended December 31, 2016, 2017 and 2018. Our gross profit was HK\$905.7 million, HK\$1,230.6 million and HK\$1,623.8 million for the same periods respectively. For the respective same periods, our wastewater treatment line of business accounted for 97.6%, 64.9% and 74.7% of our revenue and 96.5%, 78.3%, and 75.9% of our gross profit.

### **Basis of Presentation**

Our Company is incorporated in Bermuda as an exempt company with limited liability and is listed on the SGX-ST Main Board. The immediate holding company and ultimate holding entity of the Company are China Everbright Water Holdings Limited and China Investment Corporation, which are incorporated in the British Virgin Islands and the PRC, respectively.

We prepare our historical financial information in accordance with IFRS issued by the IASB. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Having assessed the effects of (i) adopting IFRS 9 on our historical financial information as compared to the adoption of IAS 39; and (ii) adopting IFRS 15 as compared to the adoption of IAS 18 on our historical financial information, save for the change in classification of certain assets and liabilities in the consolidated statement of financial position of our Group attributable to the adoption of IFRS 9 and IFRS 15, our Directors considered that the adoption of IFRS 9 and IFRS 15 would not have a significant impact on our financial position and performance.

We have not applied certain new and revised IFRSs, that have been issued but are not yet effective, in our historical financial information. We are in the process of making an assessment of the

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impact of these new and revised IFRSs upon initial application but are not yet in a position to state whether they would have a significant impact on the Group's financial performance and financial position. For instance, we plan to adopt the transitional provisions in IFRS 16, which is effective for annual periods beginning on or after January 1, 2019, to recognize the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings as at January 1, 2019 and will not restate the comparatives. For more information, please refer to Note 2.3 to the Accountants' Report in Appendix I to this Prospectus.

All intra-group transactions and balances have been eliminated on consolidation.

While our Group operates in one single business segment, namely the water environment management business in the PRC, we shall, to the extent convenient, provide further breakdown of figures based on our three lines of business, namely wastewater treatment, water environment treatment and others such as water supply, reusable water, wastewater source heat pump, and EPC construction, consultancy work and other services.

### FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by the following key factors. Moreover, due to the particular nature of our business, we accounted for certain projects, including substantially all of our wastewater treatment projects and water environment treatment projects, as service concession arrangements under IFRS. Such accounting treatment and the substantial subjective judgments in connection with such treatment had and will continue to have a material impact on our results of operations and financial position. See “— Impact of the accounting treatment of service concession arrangements”.

#### *Demand for our services and our ability to expand our business*

Our results of operations are affected by the level of demand for water environment management services in China, in particular, for wastewater treatment services, water environment treatment services and other water treatment related services that we mainly engage in. Demand for such services in China has been driven by various factors, including rapid population growth, urbanization, industrialization, changing economic conditions, macroeconomic policies of the PRC central and local governments, regulatory requirements pertaining to our industry and an increasing focus by the PRC central and local governments on environmental protection. We believe these factors will continue to have an impact on the demand for wastewater treatment services, water environment treatment services and other water treatment related services in China and on our business, financial condition, results of operations and prospects.

The PRC government's expenditures on the water industry affect, to a large extent, the demand for wastewater treatment services, water environment treatment services and other water treatment related services in China. In recent years, the PRC government has increased its spending on wastewater treatment and water supply facilities. Furthermore, the PRC government has promulgated



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a large number of favorable laws and policies to promote the growth of the wastewater treatment industry in recent years. For example, the 13th Five-Year Wastewater Treatment Plan (the “**Treatment Plan**”) stipulates detailed construction targets, requires the local governments to speed up construction of wastewater treatment and water supply plants and encourages wastewater treatment operators to increase the utilization of effluent for reclaimed water production. Moreover, a circular issued by the NDRC, the MOF and the MOHURD on the Relevant Issues Concerning the Formulation and Adjustment of the Charging Standard for Sewage Treatment (《關於制定和調整污水處理收費標準等有關問題的通知》) requires the implementation of the tariff pricing standards that provide reasonable profits for wastewater treatment operators and protect the legitimate interests of such operators. Furthermore, according to the Implementation Directives on Cooperation between Government and Social Capital for Water Pollution Prevention and Treatment (《關於推進水污染防治領域政府和社會資本合作的實施意見》) published on April 9, 2015, the PPP business model is to be highly promoted in the wastewater treatment industry. As a result of the PRC government’s favorable policies on environment protection, government grants amounting to HK\$6.5 million, HK\$11.4 million and HK\$23.9 million for the years ended December 31, 2016, 2017 and 2018 were granted to our Group.

We also believe that an increasing number of wastewater treatment systems in the PRC will need to be built, upgraded or replaced. We anticipate that this will also result in more growth opportunities for our BOT and TOT projects. However, there is no assurance that the PRC government will not change the current policies over environmental protection, which may in turn affect the outlook of our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry”.

### **Our ability to grow and expand our business**

Our ability to expand our business, either by organic development or acquisitions of concession projects, affects our business growth and results of operations. During the Track Record Period, our scale of business grew through, among other ways, building up new projects in areas where we see attractive investment opportunities as well as the consolidation of the results of operations of Dalian Dongda which we acquired as a subsidiary in November 2015.

The number of projects under service concession arrangements in our project portfolio grew from 79 projects as of December 31, 2016, to 111 projects as of December 31, 2018. Our acquisition of Dalian Dongda in August 2015 boosted our aggregate designed wastewater treatment capacity by approximately 835,000 tonnes/day and further elevated our market position as 16 existing projects and five new projects post-acquisition were added to our portfolio. In addition, our Directors believe that the Xuzhou Acquisition will complement our Company’s capabilities in the field of municipal engineering design, enhance the efficiency of our Company’s engineering design works and reduce the relevant costs, and enable our Company to undertake design projects relating to environmental water services to create a new source of profit growth. For more details about our acquisition of Dalian Dongda, see “— Acquisition of Dalian Dongda” and “History and Corporate Structure — Our Acquisitions — Acquisition of Dalian Dongda Water Co., Ltd. (currently known as Everbright Water

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(Dalian) Co., Ltd.)”. For more details about our acquisition of Xuzhou Design Institute, see “— Acquisition of Xuzhou Design Institute” and “History and Corporate Structure — Our Acquisitions — Acquisition of Xuzhou Municipal Engineering Design Institute Co., Ltd.”.

In the future, we will continue to expand our business either through organic development or acquisitions. Nonetheless, we cannot assure you that we will be able to benefit from the organic development or acquisitions as intended, and this could impact our business, financial condition, results of operations and prospects. See “Risk Factors — Risks Relating to our Business and Industry”.

### **Operating costs and government pricing policies regarding our services**

We are exposed to fluctuations in the prices of raw materials and the equipment used in constructing our treatment facilities as well as the prices of the raw materials we use in our operation of our wastewater and water treatment facilities. For our BOT, BOO and BT projects, the cost of construction services primarily includes contractor costs, procurement costs and installation of equipment costs we incur in respect of such projects. Our BOT, TOT, BOO and self-operation projects incur operating costs that primarily include electricity and water costs, labor costs and treatment chemical costs. Rising raw material, equipment, labor costs and other operating costs, to the extent that we cannot pass on such increases to our customers, could adversely affect our financial performance.

Our ability to pass on increases in the purchase price of raw materials, equipment, labor and other operating costs may be limited by certain government pricing policies in place. For our service concession arrangement projects, the fees we receive typically include a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff for wastewater treated in excess of the minimum volume. Such tariff rates are pre-determined at the time when we enter into the project agreement with the local governments or their designees. Accordingly, our revenue and profitability are affected by such tariff rates, which are determined by local governments based on factors, including, among others, the economic indicators of the regions in which our facilities are operating, and the supply of and demand for discharge of wastewater and the cost of providing wastewater treatment services in the relevant area. For our service concession arrangement projects, the concession agreements contain provisions specifying the circumstances in which the parties can adjust the tariffs, generally with reference to inflation and/or changes in benchmark interest rates on loans or utilities charges. The tariff adjustments are subject to the local governments’ consent, which may be time consuming. The time lag between the increases in electricity and water prices, other raw material prices and labor costs and the tariff adjustment, if any, has impacted and will continue to impact our profit margins. Any adjustment agreed with the local governments may or may not be timely or sufficient to offset such increases.

### **Access to capital and finance costs**

Our businesses are capital intensive. We need substantial amounts of capital for the expansion of our businesses as well as for the construction and acquisition of new facilities. As a result, our performance is affected by our access to capital and the total amount of capital we are able to raise through other financing efforts, as well as any interest rate fluctuations. We actively seek to finance the

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development of our projects and other capital expenditures through our internal resources as supplemented by bank loans and the issuance of equity and debt securities, such as the First Tranche Panda Bonds, which we issued in 2017 and had a principal amount of RMB1 billion, bearing a coupon rate of 4.55% for a five-year maturity, the Second Tranche Panda Bonds, which we issued in 2018 and had a principal amount of RMB800.0 million bearing a coupon rate of 4.60% (with respect to the type 1 bonds) and of 4.58% (with respect to the type 2 bonds) for a five-year maturity as well as the Third Tranche Panda Bonds issued in 2019 with a principal amount of RMB700.0 million bearing a coupon rate of 3.89% for a five-year maturity.

Our borrowings and interest expenses on borrowings could affect our financial performance. As of December 31, 2016, 2017 and 2018 and February 28, 2019, the outstanding balance of our borrowings were HK\$4,887.5 million, HK\$6,631.8 million, HK\$7,600.8 million and HK\$8,746.5 million, respectively. Included in borrowings as of December 31, 2016, 2017 and 2018 and February 28, 2019 are loans of HK\$32.5 million, nil, nil and nil, respectively, from a related party bank. The loans from the related party bank as of December 31, 2016 were unsecured, bore interest at rates announced by the PBOC and were repayable by installments until December 2018. The effective interest rates of our borrowings ranged from 2.20% to 6.00%, 2.60% to 4.90%, and 2.88% to 5.02% as of December 31, 2016, 2017 and 2018, respectively. Our interest expenses on bank and other loans were HK\$194.7 million, HK\$211.1 million and HK\$220.9 million, respectively, of which HK\$2.4 million, HK\$1.2 million and nil, respectively, were interest expenses on loans from the related party bank for the years ended December 31, 2016, 2017 and 2018. As of December 31, 2016, 2017 and 2018, the outstanding balance of loans from the intermediate holding companies and fellow subsidiaries were HK\$228.5 million, nil and nil, respectively, and the effective interest rates of our loans from the intermediate holding companies and fellow subsidiaries ranged from 3.77% to 4.75%, and our interest expenses on loans from the intermediate holding companies and fellow subsidiaries were totaling HK\$10.5 million, HK\$7.3 million and nil for the years ended December 31, 2016, 2017 and 2018. Any change in the interest rates of our borrowings and loans from the intermediate holding companies and fellow subsidiaries or the amount of our borrowings and loans from the intermediate holding companies and fellow subsidiaries will affect our interest payments and finance costs, which in turn could affect our cash flows, financial condition and results of operations. As our bank and other loans and corporate bonds during the Track Record Period are principally denominated in RMB, the interest rates on our loans are primarily affected by the benchmark lending rates set by the PBOC. For details about the interest rates for our fixed-rate and variable-rate borrowings, see Note 39 to the Accountants' Report in Appendix I to this Prospectus. Furthermore, changes in the benchmark lending rates and bank reserve requirement ratios by the PBOC may affect the amount of funds available to commercial banks in the PRC to lend to businesses, including our Group. We cannot assure you that the PBOC will not further raise the lending rates or reserve requirement ratios in the future, and any such increases may increase our finance costs and thereby materially and adversely affect our business, financial condition, results of operations and prospects. See "Risk Factors — Risks Relating To Conducting Business in the PRC".

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### *Project portfolio and business model mix*

#### *Project portfolio*

Our average profit margin for a certain financial period is affected by the projects we undertake and the stages of completion of these projects. Since our establishment in 2003, we have developed from a municipal wastewater treatment operator to an integrated water-related services provider that conducts the design, construction, and operation of municipal wastewater treatment, industrial wastewater treatment, water environment treatment as well as other businesses including water supply, reusable water, and wastewater source heat pump. Wastewater treatment and water environment treatment businesses accounted for the majority of our total revenue over the Track Record Period whereas our other business services accounted for a relatively small part of our total revenue. Due to different profit margins, capital structures, and cash flows offered by the various individual projects, our overall financial performance is expected to be affected by the mix of projects we undertake and their respective contributions to our total revenue and profit.

#### *Business model mix*

We use different business models for our service concession arrangement projects and for most of our service concession arrangement projects, we adopted the BOT and TOT project models. The differences in business models have had an impact on our revenue and cost recognition, gross profit margin and cash flows. For example, we recognize revenue from BOT projects during both the construction and the operation phases of the projects. However, while we recognize construction revenue for the BOT projects, we actually do not receive any cash payment from the local governments for our construction services during construction phase. The actual cash inflow for our construction revenue from our BOT projects is received at a later stage in the form of cash tariff payments during the operation phase of the relevant BOT projects over the stipulated concession periods, and it may take up to 30 years to settle the mismatch. Meanwhile, due to varied profit margin of different phases of BOT projects, our overall profit margin, which takes into account of our profit margins from different business model, may be affected during the construction phase of BOT projects. Should we undertake more BOT projects in the future, it could result in a cash flow mismatch as we may not have the cash inflow matching the revenue recognized during the construction phase of our BOT projects, and our overall profit margin may also be affected. For more information about service concession arrangements and our projects, see “Business — Service Concession Arrangements”. For more information about the accounting treatment of service concession arrangements, see “— Critical Accounting Policies, Estimates and Judgments — Revenue recognition”.

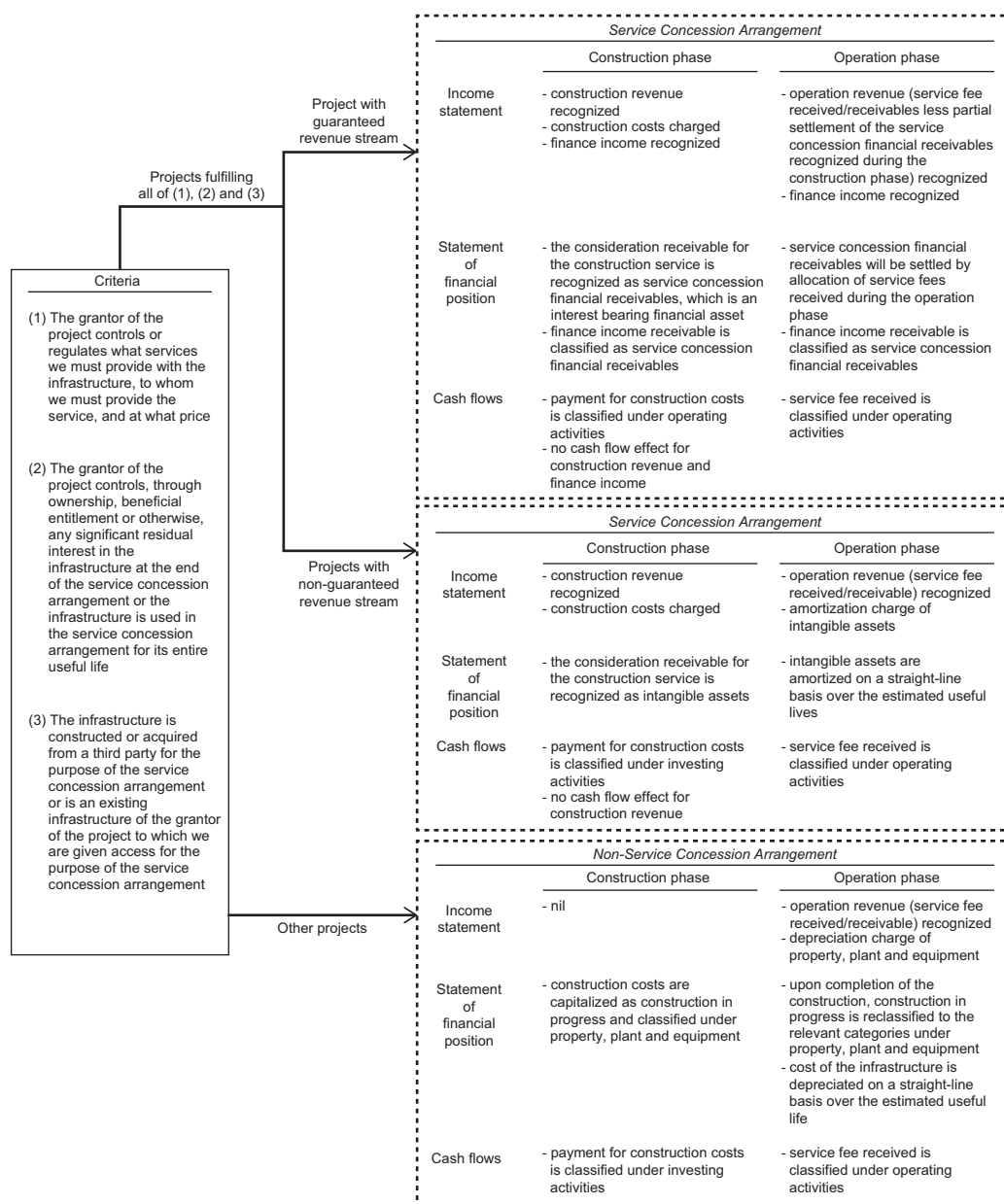
### **Impact of the accounting treatment for service concession arrangements**

The accounting treatment of service concession arrangements varies with the type of project, involves judgment, and affects the presentation of our results of operation. For more information about service concession arrangements and our projects, see “Business — Service Concession Arrangements”. For more information about the accounting treatment of service concession

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arrangements, see “— Critical Accounting Policies, Estimates and Judgments — Service concession arrangements”.

The following chart sets forth a summary of the accounting treatment of service concession arrangements and non-service concession arrangements under IFRS.



### *Projects Accounted for as Service Concession Arrangements*

For projects accounted for as service concession arrangements, we recognize revenue during both the construction phase and the operation phase. Therefore, there is a mismatch between our revenue and the underlying cash flows for such projects, because we generally do not receive actual cash payments during the construction phase but during the operation phase.

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For projects accounted for as service concession arrangements, we recognize non-cash revenue during the construction phase which appears on our financial statements as “construction service revenue”. Our revenue is affected by the number of projects under construction, the estimated fair value of the construction work of those projects, and the stage of completion. An increase in the number of projects under construction and progress of construction work for individual projects would lead to an increase of our construction service revenue. As the number of projects under construction depends on the timing of sourcing new pipeline projects and may fluctuate from period to period, revenue from our construction services may fluctuate accordingly. For more information, please refer to “— Critical Accounting Policies, Estimates and Judgment — Revenue recognition”.

We also recognize finance income as service concession financial receivables in the statement of financial position during both the construction and operation phases for projects that are accounted for as service concession arrangements with financial assets recorded during the construction phase. Finance income represents the amount of interest accrued on the outstanding balance of the service concession financial receivables using the effective interest method at the prevailing PBOC rate at the time we enter into the relevant agreement. In the operation phase of the project, when we collect the service tariff, we allocate the tariff billed as follows (i) a portion to pay down the balance of service concession financial receivables, (ii) amortized interest on the service concession financial receivables, and (iii) the remainder, which we recognize as operation revenue. For each project, the sum of the repayment on the service concession financial receivables and the amortized interest is a fixed amount for each accounting period. Based on the effective interest method, the balance of service concession financial receivables will be completely paid down at the end of the concession period. Thus, finance income in the operation phase will decrease in line with the reduction of the outstanding balance of service concession financial receivables.

The fair value of our construction services, which is recognized over the construction phase of a project as construction service revenue, is based on the valuation prepared by independent third party valuer and is derived from the construction costs estimated by us at the time of valuation plus their respective mark-up, which is determined by the valuer with reference to publicly available information regarding the operating margins of selected comparable companies that provide construction services to similar projects in the PRC.

After our board of directors approves the budget for construction cost, it will be used by the valuer in determining the valuation of our construction service. In appraising our construction services, the independent third party valuer also considers, among other things, the amount of investment, capacity, construction period and other characteristics of the construction services, and studies the market conditions of projects in the relevant industry. According to the independent third party valuer, the mark-ups for our construction services for purposes of their valuation during the Track Record Period ranged from 14.3% to 23.4%, which were in line with the market norm. Gross profit margin based on the mark-up for our construction services for purposes of their valuation may be different from the actual gross profit margin of our construction services because the actual costs for our construction services may be different from the budgeted construction costs used at the time of determining the fair value of our construction services due to the uncertainty in construction work

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which can be affected by complex construction technologies, geological conditions, weather and other factors which are out of our control and fluctuation in costs of construction contractors and engineering service providers and purchase price for construction materials and equipment during the period from valuation to the commencement of construction, which can be a year or more. Differences between the gross profit margins based on mark-ups from valuation and the actual gross profit margins also arise due to variation in construction costs as a result of changes in sewage treatment systems or other parts of the facilities which can be affected by many factors during the construction.

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The following table sets forth our revenue by project phase in which the revenue was recognized for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Wastewater treatment</b>						
Construction revenue	1,133,784	45.5	922,306	25.7	1,738,886	36.5
Operation revenue	766,048	30.6	833,592	23.2	1,178,012	24.7
Finance income	535,187	21.5	573,149	16.0	641,687	13.5
<b>Subtotal</b>	<b>2,435,019</b>	<b>97.6</b>	<b>2,329,047</b>	<b>64.9</b>	<b>3,558,585</b>	<b>74.7</b>
<b>Water environment treatment</b>						
Construction revenue	—	—	1,108,289	30.9	554,445	11.6
Operation revenue	—	—	—	—	4,878	0.1
Finance income	1,859	0.1	26,923	0.7	64,931	1.4
<b>Subtotal</b>	<b>1,859</b>	<b>0.1</b>	<b>1,135,212</b>	<b>31.6</b>	<b>624,254</b>	<b>13.1</b>
<b>Others</b>						
Construction revenue	—	—	80,697	2.2	416,038	8.7
Operation revenue	45,782	1.8	44,834	1.2	54,781	1.1
Finance income	1,729	0.1	1,132	0.1	14,096	0.3
Others <sup>(1)</sup>	9,648	0.4	711	—	100,564	2.1
<b>Subtotal</b>	<b>57,159</b>	<b>2.3</b>	<b>127,374</b>	<b>3.5</b>	<b>585,479</b>	<b>12.2</b>
<b>Total</b>	<b>2,494,037</b>	<b>100.0</b>	<b>3,591,633</b>	<b>100.0</b>	<b>4,768,318</b>	<b>100.0</b>

Note:

(1) Others represent EPC construction, consultancy work and other services where revenue derived from such business is not affected by project phase.



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The following table sets forth the gross profit by project phase for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HKD'000	%	HKD'000	%	HKD'000	%
<b>Wastewater treatment</b>						
Construction	241,432	26.7	253,911	20.6	346,592	21.3
Operation	97,387	10.8	136,153	11.1	244,999	15.1
Finance income	535,187	59.0	573,149	46.6	641,687	39.5
<b>Subtotal</b>	<b>874,006</b>	<b>96.5</b>	<b>963,213</b>	<b>78.3</b>	<b>1,233,278</b>	<b>75.9</b>
<b>Water environment treatment</b>						
Construction	—	—	211,211	17.2	120,563	7.4
Operation	—	—	—	—	2,146	0.1
Finance income	1,859	0.2	26,923	2.2	64,931	4.0
<b>Subtotal</b>	<b>1,859</b>	<b>0.2</b>	<b>238,134</b>	<b>19.4</b>	<b>187,640</b>	<b>11.5</b>
<b>Others</b>						
Construction	—	—	11,534	0.9	110,406	6.8
Operation	22,634	2.5	20,229	1.6	25,450	1.6
Finance income	1,729	0.2	1,132	0.1	14,096	0.9
Others <sup>(1)</sup>	5,424	0.6	(3,655)	(0.3)	52,908	3.3
<b>Subtotal</b>	<b>29,787</b>	<b>3.3</b>	<b>29,240</b>	<b>2.3</b>	<b>202,860</b>	<b>12.6</b>
<b>Total</b>	<b>905,652</b>	<b>100.0</b>	<b>1,230,587</b>	<b>100.0</b>	<b>1,623,778</b>	<b>100.0</b>

Note:

(1) Others include EPC construction, consultancy work and other services where gross profit derived from such business is not affected by project phase.

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The following table sets forth the gross profit margin by project phase for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HKD'000	%(2)	HKD'000	%(2)	HKD'000	%(2)
<b>Wastewater treatment</b>						
Construction	241,432	21.3	253,911	27.5	346,592	19.9
Operation	97,387	12.7	136,153	16.3	244,999	20.8
Finance income	535,187	100.0	573,149	100.0	641,687	100.0
<b>Subtotal</b>	<b>874,006</b>	<b>35.9</b>	<b>963,213</b>	<b>41.4</b>	<b>1,233,278</b>	<b>34.7</b>
<b>Water environment treatment</b>						
Construction	—	N/A	211,211	19.1	120,563	21.7
Operation	—	N/A	—	N/A	2,146	44.0
Finance income	1,859	100.0	26,923	100.0	64,931	100.0
<b>Subtotal</b>	<b>1,859</b>	<b>100.0</b>	<b>238,134</b>	<b>21.0</b>	<b>187,640</b>	<b>30.1</b>
<b>Others</b>						
Construction	—	N/A	11,534	14.3	110,406	26.5
Operation	22,634	49.4	20,229	45.1	25,450	46.5
Finance income	1,729	100.0	1,132	100.0	14,096	100.0
Others <sup>(1)</sup>	5,424	56.2	(3,655)	N/A	52,908	52.6
<b>Subtotal</b>	<b>29,787</b>	<b>52.1</b>	<b>29,240</b>	<b>23.0</b>	<b>202,860</b>	<b>34.6</b>
<b>Total</b>	<b>905,652</b>	<b>36.3</b>	<b>1,230,587</b>	<b>34.3</b>	<b>1,623,778</b>	<b>34.1</b>

Notes:

- (1) Others represent EPC construction, consultancy work and other services where revenue derived from such business is not affected by project phase.
- (2) Gross profit margin is calculated by dividing the gross profit of each line of business by their respective revenue from the stated period.

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The following roll forward table sets forth the movements of the balances of service concession financial receivables and intangible assets during the Track Record Period.

	Intangible assets- Concession rights	Service concession financial receivables
	HK\$'000	HK\$'000
<b>At January 1, 2016</b>	1,397,668	8,606,632
Additions*	—	1,773,306
Amortization	(71,750)	—
Disposal of a subsidiary	(3,385)	—
Progress billings	—	(797,005)
Exchange realignment	(89,371)	(611,592)
<b>At December 31, 2016</b>	1,233,162	8,971,341
Additions*	219,993	2,720,978
Amortization	(66,095)	—
Progress billings	—	(806,687)
Exchange realignment	87,706	628,631
<b>At December 31, 2017</b>	1,474,766	11,514,263
Additions*	181,095	3,247,009
Amortization	(66,255)	—
Progress billings	—	(1,018,638)
Exchange realignment	(74,610)	(590,651)
<b>At December 31, 2018</b>	1,514,996	13,151,983

Note:

- \* Additions to intangible assets associated with operating concessions and service concession financial receivables represent (a) construction revenue and finance income (for service concession financial receivables) recognized during construction period; and (b) consideration paid for acquiring TOT projects or land use rights, less government grants, if any.

The following table sets forth the sensitivity of our construction revenue for the years ended December 31, 2016, 2017 and 2018 in relation to movements in the mark-ups of our construction services for the respective years indicated:

	Year ended December 31,					
	2016		2017		2018	
	Changes in construction revenue	% change	Changes in construction revenue	% change	Changes in construction revenue	% change
%	HK\$'000	%	HK\$'000	%	HK\$'000	%
5	44,829	4.0	81,732	3.9	106,590	3.9
3	26,897	2.4	49,039	2.3	63,954	2.4
1	8,966	0.8	16,346	0.8	21,318	0.8
(1)	(8,966)	(0.8)	(16,346)	(0.8)	(21,318)	(0.8)
(3)	(26,897)	(2.4)	(49,039)	(2.3)	(63,954)	(2.4)
(5)	(44,829)	(4.0)	(81,732)	(3.9)	(106,590)	(3.9)

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While we record revenue on the income statement during the construction phase, we record the relevant construction contracts in progress at the end of the reporting period in the statement of financial position either as “service concession financial receivables” or “intangible assets” depending on whether the revenue stream under the relevant construction contract is guaranteed. If the revenue stream under the construction contracts is guaranteed, the construction contracts will be recorded as “service concession financial receivables”. If the revenue stream is not guaranteed, the construction contracts will be recorded as “intangible assets”.

With respect to each project accounted for as a service concession arrangement with financial assets recorded during the construction phase, we recognize construction revenue as service concession financial receivables during the construction phase, and recognize finance income as service concession financial receivables during both the construction and operation phases. Finance income represents the amount of interest accrued on the outstanding balance of service concession financial receivables using the effective interest method at the prevailing PBOC rate at the time we enter into the relevant agreement. The interest rates ranged from 4.90% to 7.83% per annum during our Track Record Period. The service concession financial receivables are offset by a portion of cash receipt generated as service fee (recorded as progress billings) on a straight-line basis during the operation phase such that the balance of the relevant financial receivables will be reduced to zero at the end of the concession period. The remaining portion of the cash receipt generated as service fee is then recorded as operation revenue. As such, upon the commencement of the operation phase, based on the total balance of the financial receivables with respect to a project as of that time, the amount of cash receipt to be allocated to offset the financial receivables for each year over the remaining concession period is fixed, while the actual cash receipt from our operation services may fluctuate from period to period.

For projects accounted for as service concession arrangements with intangible assets recorded during the construction phase, the entire service fees we receive during the operation phase will be recorded as operation revenue, while the intangible assets we record in relation to the revenue generated from construction services will be amortized over the estimated useful life on a straight-line basis.

For projects with construction revenue recognized as service concession financial receivables, operation revenue accounts for the majority of the revenue during the operation phase while finance income accounts for the remainder. Finance income decreases as the outstanding balances of the service concession financial receivables decrease over the operation phase. Accordingly, upon the commencement of the operation phase, assuming the operating scale and pricing of operation services remain the same each year, the revenue, which consists of operation revenue and finance income, is expected to decrease over the operation phase. For projects with construction revenue recognized as intangible assets, the intangible assets are amortized on a straight-line basis over the period of their useful lives. Accordingly, upon the commencement of the operation phase, assuming the operating scale and pricing of operation services remain the same each year, the revenue, which only consists of income generated from operation services, is expected to remain stable over the operation phase.

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Service concession financial assets and intangible assets are subject to impairment testing when there is an impairment indicator. An example of an impairment indicator is the case that we do not receive sufficient cash payments during the operation phase if the relevant project does not materialize or if the actual cash receipts in the operation phase are smaller than expected. Besides, intangible assets that are not yet available for use are subject to impairment testing throughout the concession period of which the recoverable amount is estimated annually as to whether or not there is any indication of impairment.

We assess at each reporting date whether service concession financial receivables and intangible assets may be impaired. For service concession financial receivables, we conduct impairment testing when there is objective evidence of impairment. Objective evidence of impairment include (a) significant financial difficulty of the counterparty; (b) breach of contract, such as default or delinquency in payments; (c) it becoming probable that the counterparty will enter bankruptcy or financial re-organization; or (d) the disappearance of an active market for an asset because of financial difficulties. During the Track Record Period, there was no objective evidence of impairment of service concession financial receivables and no impairment test was performed with respect to such receivables. For intangible assets, we conduct impairment testing if there is an indication of impairment for an intangible asset, or when annual impairment assessment for an intangible asset is required. Possible indicators of asset impairment include physical damage to a project's plant facilities and significant changes with adverse effect on the projects in the market environment. During the Track Record Period, there was no indication that any intangible asset was impaired, and no impairment test was conducted for that reason. Impairment testing conducted on intangible assets under annual impairment assessment is described further below.

Impairment testing requires estimation of an asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. To determine the fair value of the intangible assets, we estimate the discounted future cash flows from the intangible assets, making certain assumptions about the future tax, inflation, VAT, and tariff growth rates, future demand for service, and the discount rate. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In testing intangible assets for impairment, we conduct sensitivity analyses by varying our assumptions about the future rate of tariff increase and the discount rate.

Our intangible assets relating to operating concessions not yet available for use were tested for impairment annually as of December 31, 2018. For the purposes of impairment testing, value in use was determined by discounting the future cash flows to be generated from continuing use of wastewater treatment plants over the service concession periods, using pre-tax discount rates of 10.6% and 10.2% for the years ended December 31, 2017 and 2018, respectively. We believe these forecast periods are justifiable due to the long-term nature of the projects. Any reasonably possible change to the key assumptions applied is not likely to cause the recoverable amounts to be below the carrying

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values of the operating concessions not yet available for use. During the Track Record Period, no intangible assets relating to operating concessions were impaired as the recoverable amounts of the intangible assets exceeded their carrying amounts.

The sensitivity analysis set forth below has been determined based on the exposure to the pre-tax discount rate and five-year period growth rate, representing the key inputs to the determination of the recoverable amount.

The headroom of the concession rights not yet available for use is set forth below:

	As of	
	December 31, 2017	December 31, 2018
	HK\$'000	HK\$'000
Headroom	32,000	63,000

Had the estimated key assumptions been changed as below, the headroom would be increased/ (decreased) by:

	As of	
	December 31, 2017	December 31, 2018
	HK\$'000	HK\$'000
Pre-tax discount rate decreased by 0.2%	25,000	26,000
Pre-tax discount rate increased by 0.2%	(24,000)	(24,000)
Five-year period growth rate increased by 5%	2,000	2,000
Five-year period growth rate decreased by 5%	(2,000)	(2,000)

A respective increase in the discount rate from the original rate of 10.6% and 10.2% by 0.3% and 0.5% to 10.9% and 10.7%, respectively, as of December 31, 2017 and 2018 would remove the remaining headroom. Even if the five-year period growth rate decreased to 0%, the recoverable amount of the concession rights not yet available for use would still exceed its carrying value.

The components of the discount rates used in the impairment testing of intangible assets not yet in use are set forth below:

<u>Components of discount rates</u>	As of	
	December 31, 2017	December 31, 2018
Risk-free rate	3.9%	3.4%
Cost of equity	14.2%	16.8%
Cost of debt (pre-tax)	4.9%	4.9%
Cost of debt (after tax)	3.7%	3.7%
Proportion of debt	44.7%	58.8%
Proportion of equity	55.3%	41.2%
Post tax discount rate (weighted average cost of capital, "WACC") per calculation	9.5%	9.0%
<b>Pre-tax discount rate</b>	<b>10.6%</b>	<b>10.2%</b>

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Our ability to realize future cash flows, as assessed under an impairment test, is affected by factors such as changes in economic conditions and changes in our operating performance. As we periodically reassess our assumptions, including estimated future cash flows, changes in our estimates and assumptions may cause us to record material impairment charges in the future.

### *Projects Not Accounted for as Service Concession Arrangements*

Our revenue from projects not accounted for as service concession arrangements for the years ended December 31, 2016, 2017 and 2018 was HK\$9.6 million, HK\$0.7 million and HK\$100.6 million, respectively.

Revenues are recognized when our EPC construction, consultancy or other services are rendered. The amount of such revenue is recorded in our income statement as construction contract revenue and technical services income.

### **Taxation**

Our results of operations and profitability are affected by changes in the tax rates in the PRC.

### *Enterprise Income Tax (EIT)*

Our subsidiaries operating in the PRC are subject to the 25% enterprise income tax (“EIT”) on taxable income as adjusted in accordance with the relevant PRC income tax laws. Under preferential tax policies for public infrastructure projects in the PRC, certain of our subsidiaries were entitled to lower EIT rates. Certain subsidiaries were exempt from the EIT during the first two or three years after obtaining approval from the tax authority, and were entitled to a 50% reduction in the EIT for three more years after the initial tax exemption period. One subsidiary was subject to the preferential EIT rate of 15% under the West Area Development Scheme for fifteen years starting from the year of approval. One subsidiary was subject to the preferential EIT rate of 15% as a “High and New Technology Enterprise” from 2016 to 2018. Preferential EIT rate as a “High and New Technology Enterprise” is to be applied on an annual basis. One subsidiary was subject to the preferential EIT rate of 15% under China (Guangdong) Pilot Free Trade Zone (Shenzhen Qianhai and Shekou Area) from 2015 to 2018 and the period may be extended subject to annual application to the relevant tax authority. Over time, as our subsidiaries’ preferential EIT treatment expires, their effective EIT rate will likely increase. Our effective EIT rate was 30.7%, 31.2% and 29.9% for the years ended December 31, 2016, 2017 and 2018, respectively.

### *Value-Added Tax (VAT)*

In addition to the EIT, our operating subsidiaries in the PRC are also subject to value-added tax (“VAT”). Effective from July 1, 2015, under the Circular on the Issuance of the Catalog of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive

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Utilization of Resources, the previous exemption of wastewater treatment, sludge and reusable water treatment from the VAT was replaced with partial VAT refund. Since then, our wastewater treatment revenue have been subject to a 17% VAT with 70% of the tax paid refunded, and our reusable water treatment revenue have been subject to a 17% VAT with 50% of the tax paid refunded. According to Notice of 2018 issued by the State Administration of Taxation, the applicable VAT rate was adjusted to 16% effective from May 1, 2018. Since we recognize revenue from the operation and maintenance of our plants net of relevant taxes such as the VAT, the imposition of the VAT has decreased our recognized revenue and, in turn, lowered our profit margin.

### **Principal effects of adopting new IFRS 9 and IFRS 15**

#### *IFRS 9 Financial Instruments*

IFRS 9 brings together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. Our Group adopted IFRS 9 from January 1, 2018 where differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss.

IFRS 9 brought about changes to the determination of the classification and measurement of all financial assets except equity instruments and derivatives by assessing such financial assets based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss ("FVPL"). Such movements are presented in other comprehensive income with no subsequent reclassification to profit or loss.

Consequent to adopting IFRS 9, as of January 1, 2018, our Group recorded ECLs allowance of HK\$35.7 million to our Group's financial assets included in trade and other receivables under IFRS 9. As a result, our Group's retained earnings as at January 1, 2018, the Group's date of initial adoption of IFRS 9, decreased by HK\$35.7 million from HK\$2,559.4 million to HK\$2,523.8 million.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15, issued in May 2014, established a new model to account for revenue arising from contracts with customers such that revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has applied IFRS 15 using the full retrospective method of adoption. The Group has elected to apply the practical expedient for completed contracts and has not restated amounts for contracts completed before January 1, 2016.



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Apart from providing more extensive disclosure on the Group's revenue transactions and additional disclosures for the contract assets and unsatisfied contracts related to service concession arrangements, the application of IFRS 15 has had no significant impact on the financial position and/or financial performance of the Group.

For more information, please refer to Note 2.2 to the Accountants' Report in Appendix I to this Prospectus.

### ACQUISITION OF DALIAN DONGDA

In August 2015, we, through our wholly-owned subsidiary, BEWI acquired equity interests in Dalian Dongda at a consideration of RMB800.0 million plus a shareholders' loan worth RMB1,044.0 million (the "**Dalian Dongda Acquisition**"). After the acquisition completed in November 2015, Dalian Dongda became a subsidiary of our Group and Dalian Dongda's results were consolidated into the historical financial information of the Group.

The Dalian Dongda Acquisition established our presence in Northeast China, as we acquired an additional 17 projects through the Dalian Dongda Acquisition where revenue contribution from projects in that region amounted to HK\$279.8 million for the year ended December 31, 2016. For more information, please refer to "History and Corporate Structure – Our Acquisitions – Acquisition of Dalian Dongda Water Co., Ltd. (currently known as Everbright Water (Dalian) Co., Ltd.)".

### ACQUISITION OF XUZHOU DESIGN INSTITUTE

In June 2018, we, through our wholly-owned subsidiary, BEWI acquired equity interests in Xuzhou Design Institute from certain individual third parties (the "**Xuzhou Sellers**") at a consideration of RMB82.0 million (equivalent to approximately HK\$99.9 million) in cash (the "**Xuzhou Acquisition**"). In connection with the Xuzhou Acquisition, the Xuzhou Sellers and Xuzhou Design Institute provided BEWI a performance guarantee (the "**Performance Guarantee**") to guarantee that the amount of new business contracts entered into by Xuzhou Design Institute and its subsidiary (collectively, the "**Xuzhou Design Institute Group**") shall be no less than RMB55.0 million (the "**Target Amount**") for each calendar year from 2018 to 2020, and the aggregate amount of the new business contracts entered into by Xuzhou Design Institute Group shall be no less than RMB165.0 million (the "**Target Sum**") during 2018 to 2020. In the event that the Performance Guarantee is unfulfilled, the Xuzhou Sellers has undertaken to pay to BEWI a compensation which is determined depending on the amount of shortfall between the actual new business contract amount and the Target Amount and/or the Target Sum.

The Xuzhou Acquisition was completed on June 30, 2018, and thereafter Xuzhou Design Institute and its subsidiary became indirect wholly-owned subsidiaries of the Company. Our Directors believe that the Xuzhou Acquisition will complement our Company's capabilities in the field of municipal engineering design, enhance the efficiency of our Company's engineering design works and reduce the relevant costs, and enable our Company to undertake design projects relating to

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environmental water services to create a new source of profit growth. For more information, please refer to “History and Corporate Structure — Our Acquisitions — Acquisition of Xuzhou Municipal Engineering Design Institute Co., Ltd.”.

### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In such cases, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

During the Track Record Period, we did not have any significant changes on our estimates or underlying assumptions. During the Track Record Period, our estimates and associated assumptions did not materially deviate from the actual results. Our Directors do not expect that our estimates or underlying assumptions will change in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 2.4 and 3 to the Accountants’ Report in Appendix I to this Prospectus.

#### **Contract assets and contract liabilities**

Upon entering into a contract with a customer, our Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognized as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognized as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

#### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets and financial assets), the asset’s recoverable amount is estimated. An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

### **Impairment of financial assets**

The adoption of IFRS 9 has fundamentally changed our Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach.

IFRS 9 requires our Group to record an allowance for ECL for all loans and other debt financial assets not held at FVPL. The ECL allowance is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that our Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For service concession financial receivables and trade receivables, our Group has applied a simplified approach under IFRS 9 and has calculated ECL based on lifetime expected credit losses. Our Group has established a provision matrix that is based on our Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Other receivables are assessed for impairment based on 12-month ECL. 12-month ECL is the portion of lifetime ECL that results from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Our Group considers a financial asset in default when contractual payment is 90 days past due. However, in certain cases, our Group may also consider a financial asset to be in default when internal or external information indicates that our Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by our Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of our Group's debt financial assets. The increase in allowances resulted in an adjustment to our Group's retained earnings as of January 1, 2018.

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line

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basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4%
Plant and machinery	10% to 20%
Leasehold improvements, furniture and fixtures	20% to 25%
Motor vehicles and office equipment	20% to 25%

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The following intangible assets are amortized from the date they are available for use and their estimated useful lives are as follows:

Concession rights	20 to 32 years
Patents and trademarks	10 to 20 years
Computer software	5 years
Backlog contracts	3 years
Customer relationships	5 years

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The useful life of the patents and trademarks of our Group is determined based on the shorter of their statutory validity periods and the expected benefit periods. The useful life of the customer relationships of our Group is determined based on the expected benefit periods with reference to the historical customer attrition rate.

### **Provisions**

A provision is recognized when a present obligation, legal or constructive, has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

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### Service concession arrangements

Our Group entered into BOT, TOT and BOO arrangements in respect of its environmental water projects.

Our Group has concluded that all the BOT, TOT and certain BOO arrangements are service concession arrangements under IFRIC 12 *Service Concession Arrangements*, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In respect of BOT and TOT arrangements, upon expiry of concession right agreement, the infrastructure has to be transferred to the local government at nil consideration. Infrastructure for BOO arrangements is used in the service concession arrangements for its entire or substantially entire useful life.

Our Group recognizes the consideration received or receivable in exchange for the construction services as a financial receivable and/or an intangible asset under a service concession arrangement. However, if our Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognized initially at the fair value.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires our Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future water treatment volume of the relevant water treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including revenue recognition under the financial asset and intangible asset components are determined by our Group's management based on their experience and assessment on current and future market conditions. The carrying amounts of the intangible assets (i.e. concession rights) and service concession financial receivables at the end of reporting period are further disclosed in Notes 16 and 20 to the Accountants' Report in Appendix I to this Prospectus.

### Revenue recognition

#### *Revenue from contracts with customers*

Our Group has satisfied a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- (a) The customer simultaneously receives and consumes the benefits provided by our Group's performance as our Group performs.

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- (b) Our Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- (c) Our Group's performance does not create an asset with an alternate use to our Group and our Group has an enforceable right to payment for performance completed to date.

If none of the above conditions are met, our Group recognizes revenue at the point in time at which the performance obligation is satisfied.

If control of the asset is transferred over time, we recognize revenue over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.

When our Group provides more than one service in a service concession arrangement, the transaction price will be allocated to each performance obligation by reference to their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

### *Construction service revenue*

As our Group satisfies a performance obligation over time by creating or enhancing an asset or work in progress controlled by the customer, we recognize revenue from construction service over time by reference to the completion rate of the specific transaction assessed on the basis of the surveyed value of the work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Revenue from the construction services under a service concession agreement is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered.

### *Operation revenue*

Our Group recognizes revenue from environmental water project operation services when the related services are rendered. The operation revenue from reusable water supply service is recognized at a point in time when our Group has delivered water to the customer; the customer has accepted the water; our Group has the present right to payment and the collection of the consideration is probable. The other operation revenue from service concession arrangements is recognized over the period of time that the services are rendered and the benefits are received and consumed simultaneously by the customers.

### **Government grants**

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants that relate to an

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expense item are recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. For grants that relate to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

### **Income tax provisions**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Our Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Where the final tax outcome is different from the amounts that were initially recognized, such differences will impact the income and other taxes and deferred tax provisions in the period in which such determination is made.

### **Finance and interest income**

Finance and interest income is recognized on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

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### RESULTS OF OPERATIONS

The following table sets forth selected items of our income statement for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Revenue	2,494,037	3,591,633	4,768,318
Direct costs and operating expenses	(1,588,385)	(2,361,046)	(3,144,540)
<b>Gross profit</b>	<b>905,652</b>	<b>1,230,587</b>	<b>1,623,778</b>
Other income and gains, net	127,666	129,809	140,583
Administrative and other operating expenses	(298,250)	(287,021)	(439,564)
Finance income	7,631	12,463	17,918
Finance costs	(205,223)	(241,391)	(291,398)
Share of profits of associates	—	158	422
<b>Profit before tax</b>	<b>537,476</b>	<b>844,605</b>	<b>1,051,739</b>
Income tax	(164,861)	(263,812)	(314,984)
<b>Profit for the year</b>	<b>372,615</b>	<b>580,793</b>	<b>736,755</b>
Profit for the year attributable to:			
Equity holders of the Company	349,343	513,356	676,459
Non-controlling interests	23,272	67,437	60,296
	<b>372,615</b>	<b>580,793</b>	<b>736,755</b>

### Non-IFRS Measures<sup>(1)</sup>

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%(2)	HK\$'000	%	HK\$'000	%
EBIT <sup>(2)</sup>	742,699	29.8%	1,085,996	30.2%	1,343,137	28.2%
EBITDA <sup>(2)</sup>	843,975	33.8%	1,181,075	32.9%	1,432,579	30.0%

Notes:

- (1) For a reconciliation of profit or loss before income tax and finance costs ("EBIT") and profit or loss before income tax, finance costs, depreciation of property, plant and equipment, and amortization of prepaid land lease payments and intangible assets ("EBITDA") to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit for the year, see "— Other Financial Measures".
- (2) EBIT margin is calculated by dividing EBIT by revenue. EBITDA margin is calculated by dividing EBITDA by revenue.

### DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

#### Revenue

We derived revenue primarily through our integrated water environment management services, including (i) municipal and industrial wastewater treatment, (ii) water environment treatment, and



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(iii) others including water supply, reusable water, wastewater source heat pump, and EPC construction, consultancy work and other services. The table below sets forth details of our total revenue by lines of business during the Track Record Period:

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Wastewater treatment</b>						
Municipal wastewater treatment	2,407,687	96.5	2,047,551	57.1	3,509,933	73.7
Industrial wastewater treatment	27,332	1.1	281,496	7.8	48,652	1.0
<b>Subtotal</b>	<b>2,435,019</b>	<b>97.6</b>	<b>2,329,047</b>	<b>64.9</b>	<b>3,558,585</b>	<b>74.7</b>
<b>Water environment treatment</b>	<b>1,859</b>	<b>0.1</b>	<b>1,135,212</b>	<b>31.6</b>	<b>624,254</b>	<b>13.1</b>
<b>Others</b>						
Water supply	—	—	80,697	2.2	438,267	9.1
Reusable water	30,726	1.2	28,613	0.8	29,104	0.6
Wastewater source heat pump	16,785	0.7	17,353	0.5	17,544	0.4
EPC construction, consultancy work and other services	9,648	0.4	711	—	100,564	2.1
<b>Subtotal</b>	<b>57,159</b>	<b>2.3</b>	<b>127,374</b>	<b>3.5</b>	<b>585,479</b>	<b>12.2</b>
<b>Total</b>	<b>2,494,037</b>	<b>100.0</b>	<b>3,591,633</b>	<b>100.0</b>	<b>4,768,318</b>	<b>100.0</b>

Our three lines of business, wastewater treatment, water environment treatment and others, derive revenue from the construction, operation and maintenance of infrastructure under service concessions as well as the EPC revenue and technical services income.

During the Track Record Period, the vast majority of our revenue were generated from our BOT and TOT projects. Revenue under BOT projects is apportioned into construction revenue, operation revenue and finance income (if the concession provides guaranteed revenue stream). Revenue under our TOT projects is apportioned into operation revenue and finance income (if the concession provides guaranteed revenue stream).

- Construction revenue: During the construction phase of our BOT projects, we recognize construction revenue in profit or loss based on the percentage of completion of the BOT projects. For our TOT projects, no construction revenue is recognized. We generally do not receive any payments or cash inflows during the construction phase of our concession projects, but we still incur significant costs, which could result in a mismatch between our cash inflows and outflows. See “Risk Factors — Risks Relating to our Business and Industry”.
- Operation revenue: During the operation phase of our concession projects, we recognize operation revenue from our BOT and TOT projects when we render our services related to wastewater treatment, water environment treatment, water supply, reusable water and wastewater source heat pump. When tariff payments are received, the total amount

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received is accounted for as cash inflows. Such cash receipt is allocated to settle service concession financial receivables and trade receivables in our consolidated statement of financial position.

- Finance income: Under BOT and TOT project service concession agreements that provide us with an unconditional right to receive guaranteed revenue stream, we record outstanding receivables throughout the concession period under service concession arrangements in our consolidated statements of financial position. We recognize finance income when it is probable that the economic benefits from the outstanding receivable will flow to us and the amount of income can be measured reliably. Finance income is recognized as revenue in profit or loss using the effective interest method based on the accrued amount of service concession financial receivables bearing interest at rates ranging from 4.90% to 7.83% during the Track Record Period and were determined with reference to the borrowing rates across the various municipalities and cities in the PRC and the above-five-year basic lending rate set by the PBOC.

The following table sets out the breakdown of our revenue by geographic regions during the Track Record Period.

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
North China <sup>(1)</sup>	1,665,881	66.8	1,258,569	35.0	3,106,315	65.1
Central China <sup>(2)</sup>	—	—	70,702	2.0	82,264	1.7
East China <sup>(3)</sup>	548,333	22.0	1,523,649	42.4	1,018,477	21.4
South China <sup>(4)</sup>	—	—	262,796	7.3	193,678	4.1
Northeast China <sup>(5)</sup>	279,823	11.2	475,917	13.3	367,584	7.7
<b>Total</b>	<b>2,494,037</b>	<b>100.0</b>	<b>3,591,633</b>	<b>100.0</b>	<b>4,768,318</b>	<b>100.0</b>

Notes:

- (1) Revenue derived from Beijing Municipality, Shandong Province, Shaanxi Province and Henan Province.
- (2) Revenue derived from Hubei Province.
- (3) Revenue derived from Jiangsu Province.
- (4) Revenue derived from Guangxi Zhuang Autonomous Region.
- (5) Revenue derived from Liaoning Province and Inner Mongolia Autonomous Region.

### Direct costs and operating expenses

Direct costs and operating expenses primarily consist of construction cost, electricity and water, treatment chemical costs, sludge disposal fees, amortization of intangible assets and prepaid land lease payments, depreciation of property, plant and equipment, repair and maintenance expenses, employee benefits expenses and others. For the years ended December 31, 2016, 2017 and 2018, our direct costs

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and operating expenses represented approximately 63.7%, 65.7% and 65.9%, respectively, of our revenue for the relevant periods.

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Construction cost	896,576	56.4	1,634,636	69.2	2,131,808	67.8
Electricity and water	236,931	14.9	241,463	10.2	289,158	9.2
Treatment chemical costs	72,177	4.5	86,718	3.7	219,371	7.0
Sludge disposal fees	48,147	3.0	50,964	2.2	62,783	2.0
Amortization of intangible assets and prepaid land lease payments, and depreciation of property, plant and equipment	94,112	6.0	88,613	3.8	82,867	2.6
Repair and maintenance expenses	81,672	5.1	70,231	3.0	88,588	2.8
Employee benefits expenses	131,185	8.3	118,416	5.0	143,628	4.6
Others	27,585	1.8	70,005	2.9	126,337	4.0
<b>Total</b>	<b><u>1,588,385</u></b>	<b><u>100.0</u></b>	<b><u>2,361,046</u></b>	<b><u>100.0</u></b>	<b><u>3,144,540</u></b>	<b><u>100.0</u></b>

Construction cost relates to the cost we incur in building our plants. Electricity and water and treatment chemical costs are the major inputs in the operation of our plants. Depreciation of property, plant and equipment and amortization of intangible assets and prepaid land lease payments mainly reflect the amortization of our intangible assets arising from our operating concessions. Employee benefit expenses consist primarily of salaries, welfare costs, medical insurance, pension and housing fund contributions to our employees at operating subsidiaries.

The following table sets out a breakdown of our direct costs and operating expenses by lines of business during the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HKD'000	%	HKD'000	%	HKD'000	%
<b>Wastewater treatment</b>						
Municipal wastewater treatment	1,541,018	97.0	1,156,007	49.0	2,298,434	73.1
Industrial wastewater treatment	19,995	1.3	209,827	8.8	26,873	0.9
<b>Subtotal</b>	<b><u>1,561,013</u></b>	<b><u>98.3</u></b>	<b><u>1,365,834</u></b>	<b><u>57.8</u></b>	<b><u>2,325,307</u></b>	<b><u>74.0</u></b>
<b>Water environment treatment</b>	—	—	897,078	38.0	436,614	13.9
<b>Others</b>						
Water supply	—	—	69,163	2.9	312,816	9.9
Reusable water	12,840	0.8	13,260	0.6	13,588	0.4
Wastewater source heat pump	10,308	0.6	11,345	0.5	8,559	0.3
EPC construction, consultancy work and other services	4,224	0.3	4,366	0.2	47,656	1.5
<b>Subtotal</b>	<b><u>27,372</u></b>	<b><u>1.7</u></b>	<b><u>98,134</u></b>	<b><u>4.2</u></b>	<b><u>382,619</u></b>	<b><u>12.1</u></b>
<b>Total</b>	<b><u>1,588,385</u></b>	<b><u>100.0</u></b>	<b><u>2,361,046</u></b>	<b><u>100.0</u></b>	<b><u>3,144,540</u></b>	<b><u>100.0</u></b>

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### Gross profit and gross profit margin

The gross profit for an individual line of business is calculated as the revenue of the relevant line of business after deducting direct costs and operating expenses of such line of business. Our total gross profit represents the sum of each individual line of business's gross profit.

The gross profit margin of each line of business is calculated by dividing gross profit of the line of business by revenue of such line of business for the relevant periods.

The following table sets out a breakdown of our gross profit and gross profit margin by lines of business (stated as a percentage of revenue) for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%( <sup>(1)</sup> )	HK\$'000	%	HK\$'000	%
<b>Wastewater treatment</b>						
Municipal wastewater treatment	866,669	36.0	891,544	43.5	1,211,499	34.5
Industrial wastewater treatment	7,337	26.8	71,669	25.5	21,779	44.8
<b>Subtotal</b>	<b>874,006</b>	<b>35.9</b>	<b>963,213</b>	<b>41.4</b>	<b>1,233,278</b>	<b>34.7</b>
<b>Water environment treatment</b>	<b>1,859</b>	<b>100.0</b>	<b>238,134</b>	<b>21.0</b>	<b>187,640</b>	<b>30.1</b>
<b>Others</b>						
Water supply	—	—	11,534	14.3	125,451	28.6
Reusable water	17,886	58.2	15,353	53.7	15,516	53.3
Wastewater source heat pump	6,477	38.6	6,008	34.6	8,985	51.2
EPC construction, consultancy work and other services	5,424	56.2	(3,655)	N/A	52,908	52.6
<b>Subtotal</b>	<b>29,787</b>	<b>52.1</b>	<b>29,240</b>	<b>23.0</b>	<b>202,860</b>	<b>34.6</b>
<b>Total</b>	<b>905,652</b>	<b>36.3</b>	<b>1,230,587</b>	<b>34.3</b>	<b>1,623,778</b>	<b>34.1</b>

(1) Gross profit margin is calculated by dividing the gross profit of each line of business by their respective revenue from the stated period.

For a discussion of our gross profit and gross profit margin, see “— Period to Period Comparison of Result of Operations”.

### Other income and gains, net

Our other income and gains, net includes government grants being subsidies in respect of wastewater treatment plants of the Group in the PRC, VAT refunds, gain on disposal of equity interest in a subsidiary, net gain on fair value adjustment of contingent consideration receivable and sundry income. For the years ended December 31, 2016, 2017 and 2018, our other income and gains, net was HK\$127.7 million, HK\$129.8 million and HK\$140.6 million, respectively. For more information about VAT refunds, please refer to “— Factors Affecting Our Results of Operations — Value-Added Tax

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(VAT)". The following table sets forth the components of our other income and gains, net for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Government grants	6,491	5.1	11,422	8.8	23,857	17.0
Value-added tax ("VAT") refunds	106,834	83.7	114,049	87.9	98,609	70.1
Gain on disposal of equity interest in a subsidiary	402	0.3	—	—	—	—
Fair value gains, net: Fair value adjustment of contingent consideration receivable	—	—	—	—	3,428	2.4
Sundry income	13,939	10.9	4,338	3.3	14,689	10.5
<b>Total</b>	<b><u>127,666</u></b>	<b><u>100.0</u></b>	<b><u>129,809</u></b>	<b><u>100.0</u></b>	<b><u>140,583</u></b>	<b><u>100.0</u></b>

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### Administrative and other operating expenses

Administrative and other operating expenses primarily include employee benefit expenses, business development expenses, research and development expenses and other taxes. For the years ended December 31, 2016, 2017 and 2018, our administrative and other operating expenses were HK\$298.3 million, HK\$287.0 million and HK\$439.6 million, respectively, representing approximately 12.0%, 8.0% and 9.2%, respectively, of our revenue for the relevant periods. The following table sets forth the components of our administration and other operating expenses for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Employee benefit expenses	112,292	37.7	117,486	40.9	139,612	31.8
Business development expenses	16,482	5.5	19,719	6.9	21,901	5.0
Foreign exchange differences, net	55,887	18.7	4,239	1.5	20,221	4.6
Amortization of prepaid land lease payments and intangible assets, and depreciation of property, plant and equipment	7,164	2.4	6,466	2.3	6,575	1.5
Operating lease expenses	8,340	2.8	9,552	3.3	10,050	2.3
Legal and professional fee	9,783	3.3	7,857	2.7	19,605	4.5
Listing expenses	—	—	—	—	31,726	7.2
Research and development expenses	12,192	4.1	20,868	7.3	46,458	10.6
Bank charges	6,825	2.3	6,229	2.2	9,928	2.3
Other taxes (Note)	36,517	12.2	45,174	15.7	51,000	11.6
Impairment of trade receivables	—	—	—	—	16,664	3.8
Others	32,768	11.0	49,431	17.2	65,824	14.8
<b>Total</b>	<b>298,250</b>	<b>100.0</b>	<b>287,021</b>	<b>100.0</b>	<b>439,564</b>	<b>100.0</b>

Note: Other taxes mainly include real estate tax, urban and township land use tax, vehicle and vessel tax and stamp duty.

### Net finance costs

Our finance income primarily consists of interest income on bank deposits. Our finance costs primarily consist of interest expenses on bank and other loans, corporate bonds, amounts due to intermediate holding companies and amounts due to fellow subsidiaries.

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The following table sets out a breakdown of net finance costs for the periods stated:

	<u>For the year ended December 31,</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
<b>Finance income</b>			
Interest income on bank deposits	7,631	12,463	17,918
<b>Finance costs</b>			
Interest expenses on:			
Bank and other loans	(194,689)	(211,109)	(220,940)
Corporate bonds	—	(22,971)	(70,458)
Amounts due to intermediate holding companies	(2,977)	(2,947)	—
Amounts due to fellow subsidiaries	(7,557)	(4,364)	—
	<u>(205,223)</u>	<u>(241,391)</u>	<u>(291,398)</u>
<b>Net finance costs</b>	<u><b>(197,592)</b></u>	<u><b>(228,928)</b></u>	<u><b>(273,480)</b></u>

### Share of profits of associates

Our share of profits of associates represents contribution from our associates, Qingdao Haibohe Water Operating Limited (formerly named as Qingdao Everbright Water Operating Limited), which became our associate on December 31, 2016 and Hebei Xiong'an Huashen Water Engineering Technology Limited, which was established jointly with three entities during the year ended December 31, 2018. Our share of profits of associates were nil, HK\$0.2 million and HK\$0.4 million for the years ended December 31, 2016, 2017 and 2018, respectively.

### Income tax

Our income tax represents PRC corporate income tax expenses, withholding tax expenses payable on undistributed profits to non-PRC residents by our subsidiaries in China, and tax effect of temporary differences. As at the Latest Practicable Date, certain of our subsidiaries were entitled to lower corporate income tax rates such as preferential tax policies for public infrastructure projects, technology development and involvement in the West Area Development Scheme.

Certain subsidiaries were exempt from PRC corporate income tax during the first two or three years after obtaining approval from the tax authority, and were entitled to 50% reduction in PRC income taxes for three more years after the initial tax exemption period. As at the Latest Practicable Date, our remaining subsidiaries were subject to corporate income tax at the statutory rate of 25%.

No provision for Singapore and Hong Kong income tax was made as we did not have assessable profits in Singapore or Hong Kong during the Track Record Period. For details regarding the corporate income tax rate, see Note 11 of the Accountants' Report set out in Appendix I to this Prospectus.

Our income tax for the years ended December 31, 2016, 2017 and 2018 were HK\$164.9 million, HK\$263.8 million and HK\$315.0 million, respectively. Our effective corporate income tax rate for the

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years ended December 31, 2016, 2017 and 2018 was 30.7%, 31.2% and 29.9%, respectively. The effective corporate income tax rate remained stable over the Track Record Period. For more information about effective tax rate, please refer to Note 11 to the Accountants' Report in Appendix I to this Prospectus.

As at the Latest Practicable Date, we had paid, or made provisions to pay, all relevant taxes, and we did not have any material disputes with the relevant tax authorities.

### **Exchange differences arising from translation**

The functional currency of the Company is RMB, while the presentation currency of the Company and the Group is Hong Kong dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional currencies of the Company, PRC subsidiaries, a German subsidiary and PRC associates are currencies other than the Hong Kong dollar. As of the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the foreign exchange reserve. On disposal of these entities, the component of other comprehensive income relating to that particular entity is reclassified to profit or loss.

For the years ended December 31, 2016 and 2018, the exchange differences arising from translation were exchange losses of HK\$598.6 million and HK\$509.1 million, respectively. For the year ended December 31, 2017, the exchange differences arising from translation were exchange gains of HK\$587.9 million. Included in the exchange differences arising from translation were exchange losses of HK\$659.9 million and HK\$441.7 million for the years ended December 31, 2016 and 2018, respectively, and exchange gains of HK\$591.9 million for the year ended December 31, 2017, related to the exchange differences on translation of the Company's financial statements into the presentation currency, and the remaining balance of the exchange differences arising from translation were related to the exchange differences on translation of the PRC subsidiaries, German subsidiary, and PRC associates.

The exchange losses for the years ended December 31, 2016 and 2018 were mainly due to the depreciation of RMB against HK\$ during the respective years, and the exchange gains for the year ended December 31, 2017 were mainly due to appreciation of RMB against HK\$.

### **OTHER FINANCIAL MEASURES**

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use EBIT and EBITDA as additional financial measures. We present these financial



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measures as they are used by our management to evaluate our operating performance. We also believe that these financial measures provide useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

EBIT represents profit or loss before income tax and finance costs. EBITDA represents profit or loss before income tax, finance costs, depreciation of property, plant and equipment, and amortization of prepaid land lease payments and intangible assets.

The use of EBIT and EBITDA is subject to certain limitations as it does not reflect all items of income and expenses that affect our operations. Items excluded from EBIT and EBITDA — including income tax, finance costs, depreciation of property, plant and equipment and amortization of prepaid land lease payments and intangible assets — have been and may continue to be incurred in our business and are significant components in understanding and assessing our operating and financial performance. Each of these items should also be considered in the overall evaluation of our results. Additionally, EBIT and EBITDA should not be considered as a measure of our liquidity as changes in working capital, capital expenditures and other investing activities are not considered. The terms EBIT and EBITDA are not defined under IFRS, and EBIT and EBITDA are not measures of profit for the year or liquidity presented in accordance with IFRS.

We compensate for these limitations by reconciling the financial measures to the nearest IFRS performance measure, all of which should be considered when evaluating our performance. The following table reconciles our EBIT and EBITDA for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit for the year:

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the year	372,615	580,793	736,755
Add:			
Income tax	164,861	263,812	314,984
Finance costs	205,223	241,391	291,398
<b>EBIT<sup>(1)</sup></b>	<b>742,699</b>	<b>1,085,996</b>	<b>1,343,137</b>
Add:			
Depreciation of property, plant and equipment	14,680	14,613	16,736
Amortization of prepaid land lease payments	306	347	357
Amortization of intangible assets	86,290	80,119	72,349
<b>EBITDA<sup>(2)</sup></b>	<b>843,975</b>	<b>1,181,075</b>	<b>1,432,579</b>

Notes:

(1) EBIT represents profit or loss before income tax and finance costs.

(2) EBITDA represents profit or loss before income tax, finance costs, depreciation of property, plant and equipment and amortization of prepaid land lease payments and intangible assets.

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In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you are reminded not to consider EBIT and EBITDA in isolation or as a substitute for our profit for the year or any other operating performance measure that is calculated in accordance with IFRS. In addition, because these measures may not be calculated in the same manner by all companies, they may not be comparable to other similar titled measures used by other companies.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### The year ended December 31, 2018 compared to the year ended December 31, 2017

##### *Revenue*

Our revenue increased by HK\$1,176.7 million, or 32.8%, to HK\$4,768.3 million for the year ended December 31, 2018, from HK\$3,591.6 million for the year ended December 31, 2017, primarily due to increase in revenue from our wastewater treatment and others lines of business.

- Our wastewater treatment line of business revenue increased by HK\$1,229.5 million, or 52.8%, to HK\$3,558.6 million for the year ended December 31, 2018, from HK\$2,329.0 million for the year ended December 31, 2017, primarily due to an increase in construction revenue related to our wastewater treatment pipeline projects and an increase in operation revenue, which was the result of (i) commencement of operation of new projects during the year ended December 31, 2018; (ii) tariff hikes for several projects effected during the year ended December 31, 2018; and (iii) recognition of one-off income arising from retrospective tariff adjustment in relation to two wastewater treatment projects.
- Our others line of business revenue increased by HK\$458.1 million, 359.7%, to HK\$585.5 million for the year ended December 31, 2018, from HK\$127.4 million for the year ended December 31, 2017, primarily due to an increase in construction revenue related to the water supply pipeline project and an increase in revenue from provision of EPC construction and consultancy work.

##### *Direct costs and operating expenses*

Our direct costs and operating expenses increased by HK\$783.5 million, or 33.2%, to HK\$3,144.5 million for the year ended December 31, 2018, from HK\$2,361.0 million for the year ended December 31, 2017, primarily due to an increase in direct costs and operating expenses from our wastewater treatment and others lines of business.

- Our direct costs and operating expenses for the wastewater treatment line of business increased by HK\$959.5 million, or 70.2%, to HK\$2,325.3 million for the year ended

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December 31, 2018, from HK\$1,365.8 million for the year ended December 31, 2017, primarily due to an increase in construction cost related to our wastewater treatment pipeline projects and an increase in operation costs, which was the result of commencement of operation of new projects during the year ended December 31, 2018.

- Our direct costs and operating expenses for others line of business increased by HK\$284.5 million, or 289.9%, to HK\$382.6 million for the year ended December 31, 2018, from HK\$98.1 million for the year ended December 31, 2017, primarily due to an increase in construction cost related to the water supply pipeline project and an increase in cost from provision of EPC construction and consultancy work.

### *Gross profit and gross profit margin*

Our gross profit increased by HK\$393.2 million, or 32.0%, to HK\$1,623.8 million for the year ended December 31, 2018, from HK\$1,230.6 million for the year ended December 31, 2017, primarily due to increase in operation revenue of our wastewater treatment line of business, construction revenue of our wastewater treatment pipeline projects and water supply pipeline project, revenue from provision of EPC construction, consultancy work and other services, and increase in finance income, which was due to the increase in service concession financial receivables.

Our gross profit margin remained stable at 34.1% for the year ended December 31, 2018 as compared to 34.3% for the year ended December 31, 2017.

### *Other income and gains, net*

Our other income and gains, net increased by HK\$10.8 million, or 8.3%, to HK\$140.6 million for the year ended December 31, 2018, from HK\$129.8 million for the year ended December 31, 2017, primarily due to an increase in government grants and sundry income and recognition of net gains on fair value adjustment of contingent consideration receivable, partially offset by a decrease in VAT refund.

### *Administrative and other operating expenses*

Our administrative and other operating expenses increased by HK\$152.5 million, or 53.1%, to HK\$439.6 million for the year ended December 31, 2018, from HK\$287.0 million for the year ended December 31, 2017, primarily due to (i) increase in legal and professional fees incurred in connection with the proposed dual listing on the Hong Kong Main Board; (ii) the relevant expenses incurred by the newly-acquired subsidiary, Xuzhou Design Institute since June 2018; (iii) increase in research and development expenses, staff costs and business development expenses; and (iv) foreign exchange losses arising from the depreciation of RMB against USD and HK\$.

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### *Finance income*

Our finance income increased by HK\$5.5 million, or 43.8%, to HK\$17.9 million for the year ended December 31, 2018, from HK\$12.5 million for the year ended December 31, 2017, primarily because of the increase in average bank balances.

### *Finance costs*

Our finance costs increased by HK\$50.0 million, or 20.7%, to HK\$291.4 million for the year ended December 31, 2018, from HK\$241.4 million for the year ended December 31, 2017, primarily due to an increase in average balance of borrowings, which was mainly the result of issuance of the Second Tranche Panda Bonds with a principal amount of RMB800.0 million in August 2018.

### *Profit before tax*

As a result of the foregoing factors, our profit before tax increased by HK\$207.1 million, or 24.5%, to HK\$1,051.7 million for the year ended December 31, 2018 from HK\$844.6 million for the year ended December 31, 2017.

### *Income tax*

We incurred income tax of HK\$315.0 million for the year ended December 31, 2018 and HK\$263.8 million for the year ended December 31, 2017 at effective tax rates of 29.9% and 31.2%, respectively. The decrease in the effective tax rate was mainly due to the enactment of a new withholding tax policy on profits distributed to foreign investors issued by the relevant government authorities at the end of 2017 whereby the withholding tax on the profits distributed to foreign investors would be exempted upon reinvestment of the profits in enterprises in the PRC.

### *Profit for the year and net profit margin*

As a result of the foregoing factors, our profit for the year increased by HK\$156.0 million, or 26.9%, to HK\$736.8 million for the year ended December 31, 2018, from HK\$580.8 million for the year ended December 31, 2017. Our net profit margin decreased from 16.2% for the year ended December 31, 2017 to 15.5% for the year ended December 31, 2018.

### **The year ended December 31, 2017 compared to the year ended December 31, 2016**

### *Revenue*

Our revenue increased by HK\$1,097.6 million, or 44.0%, to HK\$3,591.6 million for the year ended December 31, 2017, from HK\$2,494.0 million for the year ended December 31, 2016, primarily

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attributable to increases in revenue from our water environment treatment and others lines of business.

- Our wastewater treatment line of business revenue decreased by HK\$106.0 million, or 4.4%, to HK\$2,329.0 million for the year ended December 31, 2017, from HK\$2,435.0 million for the year ended December 31, 2016, primarily due to decrease in construction revenue by HK\$211.5 million as more construction progress of several major pipeline projects occurred during the year ended 31 December 2016. This is partially offset by increased wastewater treatment operation revenue and finance income contributed by the commencement of operation of several new wastewater treatment projects and tariff hikes for several projects during the year ended December 31, 2017.
- Our water environment treatment line of business revenue significantly increased by HK\$1,133.4 million to HK\$1,135.2 million for the year ended December 31, 2017, from HK\$1.9 million for the year ended December 31, 2016, primarily due to an increase in construction revenue related to our water environment treatment pipeline projects including Zhenjiang Sponge City PPP Project, Nanjing Municipal Water PPP Project, Suizhou High-tech Industrial Park Piaoshui and Fuhe River Basin Integrated Water Environment Restoration PPP Project and Nanning Shuitangjiang Integrated Restoration PPP Project.
- Our others line of business revenue increased by HK\$70.2 million, or 122.8%, to HK\$127.4 million for the year ended December 31, 2017 from HK\$57.2 million for the year ended December 31, 2016, primarily due to an increase in construction revenue related to our water supply pipeline project.

### *Direct costs and operating expenses*

Our direct costs and operating expenses increased by HK\$772.7 million, or 48.6%, to HK\$2,361.0 million for the year ended December 31, 2017, from HK\$1,588.4 million for the year ended December 31, 2016, primarily due to an increase in direct costs and operating expenses from our water environment treatment and others lines of business.

- Our direct costs and operating expenses for the wastewater treatment line of business decreased by HK\$195.2 million, or 12.5%, to HK\$1,365.8 million for the year ended December 31, 2017 from HK\$1,561.0 million for the year ended December 31, 2016, primarily due to decrease in construction cost by HK\$224.0 million as more construction progress of several major pipeline projects occurred during the year ended 31 December 2016.
- Our direct costs and operating expenses for water environment treatment line of business increased to HK\$897.1 million for the year ended December 31, 2017 from nil for the year ended December 31, 2016, primarily due to an increase in construction cost related to our

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water environment treatment pipeline projects including Zhenjiang Sponge City PPP Project, Nanjing Municipal Water PPP Project, Suizhou High-tech Industrial Park Piaoshui and Fuhe River Basin Integrated Water Environment Restoration PPP Project and Nanning Shuitangjiang Integrated Restoration PPP Project.

- Our direct costs and operating expenses for others line of business increased by HK\$70.8 million, or 258.5%, to HK\$98.1 million for the year ended December 31, 2017 from HK\$27.4 million for the year ended December 31, 2016, primarily due to an increase in construction cost related to our water supply pipeline project.

### *Gross profit and gross profit margin*

Our gross profit increased by HK\$324.9 million, or 35.9%, to HK\$1,230.6 million for the year ended December 31, 2017 from HK\$905.7 million for the year ended December 31, 2016, primarily due to a HK\$89.2 million increase in gross profit from our wastewater treatment line of business and a HK\$236.3 million increase in gross profit from our water environment treatment line of business, partially offset by a HK\$0.5 million decrease in gross profit from others line of business.

Our gross profit margin decreased to 34.3% for the year ended December 31, 2017 from 36.3% for the year ended December 31, 2016, primarily due to decrease in gross profit margins of others line of business.

- Our gross profit for the wastewater treatment line of business increased by HK\$89.2 million, or 10.2%, to HK\$963.2 million for the year ended December 31, 2017 from HK\$874.0 million for the year ended December 31, 2016. Our gross profit margin of this line of business increased to 41.4% for the year ended December 31, 2017 from 35.9% for the year ended December 31, 2016, primarily due to increase in gross profit margin from our construction service as a result of lower construction cost and there were tariff hikes for several projects during the year ended December 31, 2017.
- Our gross profit for water environment treatment line of business increased by HK\$236.3 million to HK\$238.1 million for the year ended December 31, 2017 from HK\$1.9 million for the year ended December 31, 2016. The increase in gross profit was primarily due to increase in our construction revenue related to our water environment treatment pipeline projects including Zhenjiang Sponge City PPP Project, Nanjing Municipal Water PPP Project, Suizhou High-tech Industrial Park Piaoshui and Fuhe River Basin Integrated Water Environment Restoration PPP Project and Nanning Shuitangjiang Integrated Restoration PPP Project. The number of water environment treatment pipeline projects increased from two for the year ended December 31, 2016 to five for the year ended December 31, 2017. Our gross profit margin of this line of business decreased to 21.0% for the year ended December 31, 2017 from 100.0% for the year ended December 31, 2016 as the entire revenue for the year ended December 31, 2016 was derived from finance income and there was no direct costs and operating expenses as there was no construction nor operation during the period.

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### *Other income and gains, net*

Our other income and gains, net increased by HK\$2.1 million, or 1.7%, to HK\$129.8 million for the year ended December 31, 2017, from HK\$127.7 million for the year ended December 31, 2016, primarily due to the increase in government grants and VAT refund, partially offset by decrease in sundry income.

### *Administrative and other operating expenses*

Our administrative and other operating expenses decreased by HK\$11.2 million, or 3.8%, to HK\$287.0 million for the year ended December 31, 2017 from HK\$298.3 million for the year ended December 31, 2016, primarily due to a combined effect of the following factors: (a) non-occurrence of foreign exchange losses arising from borrowings pegged to USD which were incurred during the year ended December 31, 2016, (b) increase in business development expenses, research and development expenses and other operating expenses arising from business development expansion of the Group during the year ended December 31, 2017, and (c) increase in other taxes following the changes in tax interpretations by some local tax bureaus. The foregoing borrowings pegged to USD had been fully repaid by the end of July 2016, and no further foreign exchange losses related to such borrowings were recognized since then.

### *Finance income*

Our finance income increased by HK\$4.8 million, or 63.2%, to HK\$12.5 million for the year ended December 31, 2017 from HK\$7.6 million for the year ended December 31, 2016, primarily due to an increase in the average bank balances .

### *Finance costs*

Our finance costs increased by HK\$36.2 million, or 17.6%, to HK\$241.4 million for the year ended December 31, 2017 from HK\$205.2 million for the year ended December 31, 2016, primarily due to an increase in interest expense on borrowings, primarily as a result of an increase in average balance of bank and other loans and our issuance of corporate bonds in the PRC of principal amount of RMB1 billion in July 2017. The effective interest rates of our borrowings for the years ended December 31, 2017 and 2016 ranged from 2.60% to 4.90% and 2.20% to 6.00%, respectively.

### *Profit before tax*

As a result of the foregoing factors, our profit before tax increased by HK\$307.1 million, or 57.1%, to HK\$844.6 million for the year ended December 31, 2017 from HK\$537.5 million for the year ended December 31, 2016.

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### *Income tax*

We incurred income tax of HK\$263.8 million for the year ended December 31, 2017 and HK\$164.9 million for the year ended December 31, 2016 at effective tax rates of 31.2% and 30.7%, respectively.

### *Profit for the year and net profit margin*

As a result of the foregoing factors, our profit for the year increased by HK\$208.2 million, or 55.9%, to HK\$580.8 million for the year ended December 31, 2017 from HK\$372.6 million for the year ended December 31, 2016. Our net profit margin increased from 14.9% for the year ended December 31, 2016 to 16.2% in for the year ended December 31, 2017.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for investing in, constructing, operating and maintaining our wastewater treatment, water environment treatment, water supply, reusable water, and wastewater source heat pump facilities. To date, we have funded our investments and operations principally with bank and other loans, cash generated from our operations, equity contributions and issuance of debt instruments. We believe that our liquidity requirements will be satisfied through a combination of cash flows generated from our operating activities, bank and other loans, future issuance of corporate bonds and other loans, and the net proceeds from this Global Offering. Any significant decrease in the demand for, or pricing of, our products and services, or a significant decrease in the availability of bank loans, may adversely impact on our liquidity.

The following table sets out our cash flows for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Net cash flows from/(used in) operating activities	20,195	(264,260)	(1,015,647)
Net cash flows used in investing activities	(6,329)	(390,863)	(53,541)
Net cash flows from financing activities	142,364	1,281,291	781,806
Cash and cash equivalents at end of the year	1,359,401	2,074,414	1,706,871

### **Net cash flows from/(used in) operating activities**

Our net cash flows from/(used in) operating activities primarily consists of cash received from our clients for services provided by us. We also use cash in our operations for the purchase of raw materials and other inventories, payments to suppliers and subcontractors, payments of expenses such as salaries and benefits, and payments of income tax.

For the year ended December 31, 2018, our net cash flows used in operating activities was HK\$1,015.6 million, primarily comprising cash used in operations amounting to HK\$867.3 million and income tax paid amounting to HK\$148.3 million.



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For the year ended December 31, 2017, our net cash flows used in operating activities was HK\$264.3 million, primarily comprising cash used in operations amounting to HK\$190.4 million and income tax paid amounting to HK\$73.9 million.

For the year ended December 31, 2016, our net cash flows from operating activities was HK\$20.2 million, primarily comprising cash generated from operations amounting to HK\$154.0 million, partially offset by income tax paid amounting to HK\$133.8 million.

The net cash flows used in operating activities were recorded during the years ended December 31, 2017 and 2018 were mainly due to construction of BOT projects under service concession arrangements with guaranteed revenue stream. We generally spend cash upfront to build such BOT projects and do not receive cash payments until the project enters into operation. The cash we spend on construction of such projects is recorded as cash flows used in operating activities. As the building of public infrastructure projects is capital intensive, under the BOT project model, the initial cash outflow for each project will exceed cash inflow resulting from the mismatch between cash spent during the construction phase or for the acquisition of the project and cash generated during the operation phase. As of December 31, 2017 and 2018, we had 12 and 13 BOT projects under construction, respectively. Our operating cash flows is affected by the number and total investment amount of projects under construction. Due to the increase in the number of large-scale BOT projects under construction during the Track Record Period, our cash flows used in operating activities have exceeded cash flows from operating activities as the cash we spend on construction or acquisition of the projects is recorded as cash used in operating activities, especially during the year ended December 31, 2018. For details of our significant service concession arrangement projects that were under construction and the estimated payback periods, please see “Business—Our Projects Under Service Concession Arrangements—Project Overview List—Projects Under Construction”. We expect our cash flow position to improve when the construction of BOT and TOT projects in our pipeline are completed and commence operation, which would result in cash inflow in the form of cash tariff payments over the stipulated concession periods. In addition, our management has been working extensively and closely with our customers to recover our outstanding trade receivables, which is expected to improve our cash flows from operations.

### **Net cash flows used in investing activities**

Our net cash flows used in investing activities primarily represent net cash used for the acquisition of subsidiaries, payments for the purchases of property, plant and equipment, prepayment of land leases and intangible assets, changes in fixed deposits with maturity period over three months and balances in financial institutions, and interest received.

For the year ended December 31, 2018, our net cash flows used in investing activities was HK\$53.5 million, primarily comprising payments for the additions of intangible assets amounting to HK\$181.1 million, payment made for acquisition of subsidiaries, net of cash acquired of HK\$51.5 million, increase in an amount due from an associate of HK\$4.6 million, purchases of items of property, plant and equipment of HK\$11.2 million, partially offset by a decrease in fixed deposits with

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maturity period over three months and restricted balances in financial institutions amounting to HK\$178.0 million and interest received amounting to HK\$17.9 million.

For the year ended December 31, 2017, our net cash flows used in investing activities was HK\$390.9 million, primarily comprising payments for the additions of intangible assets amounting to HK\$221.4 million, payments for the purchase of items of property, plant and equipment amounting to HK\$9.7 million, increase in fixed deposits with maturity period over three months and restricted balances in financial institutions amounting to HK\$172.8 million, partially offset by interest received amounting to HK\$12.5 million.

For the year ended December 31, 2016, our net cash flows used in investing activities was HK\$6.3 million, primarily comprising payments for the purchases of items of property, plant and equipment and prepayment of land leases amounting to HK\$11.9 million, partially offset by interest received amounting to HK\$7.6 million.

### **Net cash flows from financing activities**

Our net cash flows from financing activities primarily represents proceeds from issue of shares, capital contributions from our non-controlling shareholders of subsidiaries, net proceeds from bank and other loans and corporate bonds, interest paid and dividends paid to shareholders and non-controlling shareholders of subsidiaries.

For the year ended December 31, 2018, our net cash flows from financing activities was HK\$781.8 million, primarily comprising proceeds from bank and other loans amounting to HK\$2,418.1 million and net proceeds from issue of corporate bonds of HK\$944.3 million, partially offset by repayment of bank and other loans amounting to HK\$2,229.2 million, interest paid amounting to HK\$268.3 million, dividends paid to shareholders amounting to HK\$31.7 million, dividends paid to non-controlling shareholders of subsidiaries amounting to HK\$28.6 million and increase in pledged bank deposits amounting to HK\$22.7 million.

For the year ended December 31, 2017, our net cash flows from financing activities was HK\$1,281.3 million, primarily comprising proceeds from bank and other loans amounting to HK\$1,959.2 million, net proceeds from issue of corporate bond of HK\$1,144.8 million, and capital contributions from non-controlling shareholders of subsidiaries amounting to HK\$214.8 million, partially offset by repayments of bank and other loans amounting to HK\$1,592.3 million, interest paid amounting to HK\$198.8 million, decrease in amounts due to intermediate holding companies amounting to HK\$79.0 million and decrease in amounts due to fellow subsidiaries amounting to HK\$154.9 million.

For the year ended December 31, 2016, our net cash flows from financing activities was HK\$142.4 million, primarily comprising proceeds from bank and other loans amounting to HK\$4,431.4 million and capital contributions from non-controlling shareholders of subsidiaries amounting to HK\$169.6 million, partially offset by repayments of bank and other loans amounting to HK\$4,121.7 million and interest paid amounting to HK\$205.2 million.

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### Net current assets/(liabilities)

The table below presents our current assets and current liabilities as at the dates indicated:

	As of December 31,			As of
	2016	2017	2018	February 28,
	HK\$'000	HK\$'000	HK\$'000	2019
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
<b>Current assets</b>				
Inventories	14,323	14,342	40,436	77,763
Trade and other receivables	588,739	805,859	1,025,044	1,372,522
Service concession financial receivables	791,609	1,200,539	1,424,161	1,273,803
Fixed deposits with maturity period over three months	543,340	630,403	547,050	547,050
Cash and cash equivalents	1,359,401	2,169,414	1,728,573	2,089,505
<b>Total current assets</b>	<b>3,297,412</b>	<b>4,820,557</b>	<b>4,765,264</b>	<b>5,360,643</b>
<b>Current liabilities</b>				
Trade and other payables	937,238	1,553,565	1,895,095	1,666,022
Borrowings	1,521,407	1,903,722	2,160,400	1,755,089
Tax payable	13,102	49,951	45,083	53,737
<b>Total current liabilities</b>	<b>2,471,747</b>	<b>3,507,238</b>	<b>4,100,578</b>	<b>3,474,848</b>
<b>Net current assets</b>	<b><u>825,665</u></b>	<b><u>1,313,319</u></b>	<b><u>664,686</u></b>	<b><u>1,885,795</u></b>

As of December 31, 2016, 2017 and 2018 and February 28, 2019, we recorded net current assets of HK\$825.7 million, HK\$1,313.3 million, HK\$664.7 million and HK\$1,885.8 million, respectively. Our current assets consist principally of cash and cash equivalents, fixed deposits with maturity period over three months, current portion of service concession financial receivables, trade and other receivables, and inventories. The key components of our current liabilities are trade and other payables, borrowings due within one year and tax payable.

Our net current assets increased from HK\$664.7 million as of December 31, 2018 to HK\$1,885.8 million as of February 28, 2019, primarily due to settlement of trade payables and borrowings due within one year with the proceeds from the issue of the Third Tranche Panda Bonds with principal amount of RMB700.0 million for a five-year maturity in January 2019.

Our net current assets decreased from HK\$1,313.3 million as of December 31, 2017 to HK\$664.7 million as of December 31, 2018, primarily due to (i) an increase in borrowings maturing within one year reclassified from non-current liabilities to current liabilities; and (ii) an increase in trade and other payables primarily due to an increase in payables to our construction contractors.

Our net current assets increased from HK\$825.7 million as of December 31, 2016 to HK\$1,313.3 million as of December 31, 2017, primarily due to (i) an increase in our other receivables which was driven by the increase in prepayment for construction works, VAT refund receivables, and pending deduct VAT on purchase; (ii) an increase in current portion of the service concession financial

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receivables due to reclassification of the receivables expected to be collected in the coming year from the non-current portion of the service concession financial receivables as a number of new projects are expected to commence operation in the coming twelve months; and (iii) an increase in bank balances and cash on hand which was the result of the issue of the First Tranche Panda Bonds with principal amount of RMB1 billion for a five-year maturity in 2017. These increases in current assets were partially offset by an increase in borrowings due to additional bank loans we raised for our projects under construction and projects in operation and an increase in trade and other payables with the ramping up of construction at our concession projects.

### **Working capital**

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand, cash flows from operations, bank loans, other loans, and equity and debt financing. We manage our cash flows and working capital by closely monitoring and managing, among other things, (i) the level of our trade receivables and payables and (ii) our ability to obtain external financing. We also review future cash flow requirements, assess our ability to meet debt repayment schedules and adjust our investment and financing plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans. We had negative operating cash flows during the Track Record Period mainly due to the accounting treatment of our investments to build or acquire plants under service concession arrangements. For detailed analysis, see “— Liquidity and Capital Resources — Net cash flows from/(used in) operating activities”.

As of February 28, 2019, we had obtained bank loan facilities of HK\$9,758.0 million, of which HK\$3,894.7 million was unutilized.

We have maintained strong and long-term relationships with major international and PRC commercial banks and financial institutions. During the Track Record Period, we made all interest and principal payments on our bank loans in a timely manner and we have been able to renew or roll over our bank loans at maturity as required. We do not foresee any immediate repayment requirement for our bank loans or withdrawal or reduction in bank loan facilities on short notice that could have a material adverse effect on our liquidity position. Our Directors also confirm that we had no material defaults in payment of trade and other payables and borrowings or breaches of material covenants during the Track Record Period.

Taking into account the financial resources available to us, including our internally generated funds and available facilities, our Directors are of the opinion that we have sufficient working capital required for our present requirements and for at least the next twelve months from the date of this Prospectus.

### **Trade and other receivables**

Our trade and other receivables primarily consist of (i) trade receivables; (ii) VAT receivables; (iii) other receivables and sundry deposits; (iv) amount due from an associate; (v) prepayments; and

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(vi) contingent consideration receivable. Our trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business, including services performed for TOT projects and service performed during the operation period of BOO and BOT projects. Our VAT receivables represent pending deduct VAT on purchase and VAT refund receivables. Other receivables and sundry deposits primarily consist of consideration receivables due from third parties arising from the disposals of service concession rights of two projects construction expenditure for a project paid on behalf of a local government, deposits for guarantee of the construction and operation of projects and others. Our prepayments primarily consist of an advance made to a financial institution and prepayments for construction works. Our contingent consideration receivable represents the amount arising from the Performance Guarantee in connection with the Xuzhou Acquisition. The following table shows the breakdown of our consolidated trade and other receivables as of the dates indicated:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
<b>Non-current</b>			
Trade receivables	—	—	50,216
VAT receivable	—	—	92,341
Other receivables	9,863	10,515	10,518
Amount due from an associate	—	—	4,029
	<u>9,863</u>	<u>10,515</u>	<u>157,104</u>
Contingent consideration receivable	—	—	2,155
	<u>9,863</u>	<u>10,515</u>	<u>159,259</u>
<b>Current</b>			
Trade receivables	429,595	413,777	720,953
Less: Impairment	—	—	(49,888)
	<u>429,595</u>	<u>413,777</u>	<u>671,065</u>
VAT receivable	23,072	113,054	131,658
Other receivables and sundry deposits	61,229	127,304	90,918
Prepayments	<u>74,843</u>	<u>151,724</u>	<u>125,017</u>
	<u>588,739</u>	<u>805,859</u>	<u>1,018,658</u>
Contingent consideration receivable	—	—	6,386
	<u>588,739</u>	<u>805,859</u>	<u>1,025,044</u>
<b>Total</b>	<u><b>598,602</b></u>	<u><b>816,374</b></u>	<u><b>1,184,303</b></u>

Our net balance of trade and other receivables increased by HK\$367.9 million, or 45.1%, to HK\$1,184.3 million as of December 31, 2018 from HK\$816.4 million as of December 31, 2017. Such an increase reflected an increase in trade receivables by HK\$307.5 million, or 74.3% to HK\$721.3 million as of December 31, 2018 from HK\$413.8 million as of December 31, 2017, primarily due to (i) increase in operation revenue from wastewater treatment and reusable water business during the year ended December 31, 2018; (ii) increase in trade receivables arising from the acquisition of Xuzhou Design Institute; and (iii) commencement of operation of a few wastewater treatment projects and water environment treatment projects during the year ended December 31, 2018. Such an increase also reflected an increase in VAT receivables by HK\$110.9 million, or 98.1%, to HK\$224.0 million as of

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December 31, 2018 from HK\$113.1 million as of December 31, 2017, primarily due to the increase in pending deduct VAT on purchase which was the result of an increase in the number and total investment amount of projects under construction.

Our net balance of trade and other receivables increased by HK\$217.8 million, or 36.4%, to HK\$816.4 million as of December 31, 2017 from HK\$598.6 million as of December 31, 2016. The increase reflected (i) an increase in VAT receivable by HK\$90.0 million, or 390.0%, to HK\$113.1 million as of December 31, 2017 from HK\$23.1 million as of December 31, 2016, primarily due to the increase in pending deduct VAT on purchase which was the result of an increase in the number of projects under construction and in operation and the increase in VAT refund receivables; and (ii) an increase in the prepayment mainly comprising prepayment for construction works by HK\$76.9 million, or 102.7%, to HK\$151.7 million as of December 31, 2017 from HK\$74.8 million as of December 31, 2016.

As of December 31, 2018, HK\$49.9 million was recorded as provision for impairment of trade receivables due to effect on adoption of IFRS 9, provision for impairment recognized for the year ended December 31, 2018 and exchange realignment. For details, see Note 22 to the Accountants' Report in Appendix I to this Prospectus. There was no recent history of default in respect of the Group's trade receivables. Since most of the debtors are local government authorities in the PRC and based on past experience, management, based on IAS 39's incurred loss approach, believes that no impairment allowance is necessary as of December 31, 2016 and 2017 in respect of the past due balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

During the Track Record Period, we had experienced delayed payments from some of our customers, which are mostly local government authorities, mainly due to their relatively prolonged internal budget approval and payment process and prolonged wastewater treatment fee collection process from the end user side. Notwithstanding so, according to Frost & Sullivan, delayed payments by local governments are common in the wastewater treatment industry and cases of default by local governments (where the relevant local government affirmed that the payment of wastewater treatment fees will no longer be made) are relatively rare in the wastewater treatment industry.

As of December 31, 2018, HK\$353.3 million, representing 49.0% of our trade receivables net of provision, were past due and 19.8% (or HK\$69.9 million) of our trade receivables net of provision that were past due as of December 31, 2018 were overdue for over 365 days. Our outstanding trade receivables as of December 31, 2018 primarily comprised trade receivables from two customers who are local government entities which amounted to an aggregate of HK\$233.48 million and the amount which HK\$179.04 million are past due, representing 32.4% of our trade receivables net of provision and 50.7% of our trade receivables net of provision that were past due as of December 31, 2018, respectively. Apart from these two local governments, there was no other single customer that accounted for more than 8% of our trade receivables net of provision that were past due as of December 31, 2018.

We have been in discussion with these two local governments and are in the process of recovering the trade receivables from them. We have also obtained a written undertaking dated

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November 22, 2018 (“**Written Undertaking**”) from one of these two local governments, pursuant to which the local government has undertaken to (i) make payment of 30% of its outstanding wastewater treatment fees owed to our Group prior to 2018 in each of 2019 and 2020 and the remaining 40% of such fees in 2021; and (ii) with effect from January 1, 2018, to pay in full the wastewater treatment fees due to our Group for the corresponding year, such that it will not result in a continuous increase in our Group’s trade receivables due from it.

In addition, our management has been working extensively and closely with our customers to recover the outstanding trade receivables. As a result of such efforts, all of our customers have been making consistent and regular payments during the Track Record Period. Of our outstanding trade receivables of HK\$429.6 million, HK\$413.8 million and HK\$721.3 million as of December 31, 2016, 2017 and 2018, respectively, 81.8% (or HK\$351.4 million), 66.9% (or HK\$276.9 million), and 32.5% (or HK\$234.1 million) of our trade receivables as of those dates, had been settled as of February 28, 2019.

The aging analysis of net trade receivables of our Group is as follow:

	As of December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Current	183,956	222,142	367,987
Past due:			
— 1 to 30 days	54,864	40,250	21,844
— 31 to 90 days	35,520	32,578	73,100
— 91 to 180 days	43,749	13,685	133,978
— 181 to 365 days	54,314	25,391	54,511
— more than 1 year but within 2 years	48,800	74,860	38,851
— over 2 years	8,392	4,871	31,010
Amounts past due	245,639	191,635	353,294
Total	429,595	413,777	721,281

From January 1, 2018, our Group applied the simplified approach to provide impairment for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. For the purpose of measuring the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The following table sets out our average trade receivables turnover days for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	<u>65.4</u>	<u>42.9</u>	<u>45.4</u>
Average trade receivables turnover days <sup>(1)</sup>			

Note:

- (1) Average trade receivables turnover days for a period is calculated using the average of the beginning and ending trade receivables of the period divided by revenue for that period and multiplied by 365 days for each financial year.

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## FINANCIAL INFORMATION

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Our average trade receivables turnover days remained relatively stable over the Track Record Period, decreasing from 65.4 days for the year ended December 31, 2016 to 42.9 days for the year ended December 31, 2017 and increasing to 45.4 days for the year ended December 31, 2018. The decrease in the average trade receivables turnover days was primarily due to accelerated settlement from our customers.

As of December 31, 2018, HK\$92.3 million was recorded as our non-current portion of VAT receivable. Our Directors believe that the non-current portion of VAT receivable is considered fully recoverable as the input VAT is expected to be deductible in the following years. As of December 31, 2018, non-current portion of other receivables primarily comprised receivables from a third party arising from the disposal of service concession rights held by Suqian City Cheng Bei Wastewater Treatment Co., Ltd. of HK\$6.2 million. Our Directors believe that the non-current portion of other receivables are considered fully recoverable as the receivables arising from the disposal of service concession rights held by Suqian City Cheng Bei Wastewater Treatment Co., Ltd. is expected to be collected after one year in accordance with the contractual payment schedule with such third party.

As of December 31, 2018, HK\$131.7 million was recorded as the current portion of VAT receivable. Our Directors believe that the pending deduct VAT on purchases are expected to be collected or deductible within 12 months.

As of December 31, 2018, HK\$90.9 million was recorded as the current portion of other receivables and sundry deposits, primarily comprising receivables from third parties arising from the disposals of service concession rights held by Suqian City Cheng Bei Water Treatment Co., Ltd. and Suqian City Cheng Bei Wastewater Treatment Co., Ltd. of HK\$17.7 million, construction expenditure for a project paid by us on behalf of the local government authority of HK\$19.2 million, deposits for the guarantee of the construction and operation of projects of HK\$6.4 million and others of HK\$47.6 million, primarily comprising sundry deposits derived from various subsidiaries of the Group. Our Directors believe that the other receivables and sundry deposits are expected to be recovered or recognized as expenses within 12 months due to the following reasons: (i) the receivables from third parties arising from the disposals of service concession rights held by Suqian City Cheng Bei Water Treatment Co., Ltd. and Suqian City Cheng Bei Wastewater Treatment Co., Ltd. are expected to be collected within one year in accordance with the agreed payment schedules with such third parties; and (iii) the warranty provided by us to the local governments for our projects has not expired.



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Included in “Other receivables and sundry deposits” of the Group as of December 31, 2016, 2017 and 2018 are consideration receivables of HK\$29.8 million, HK\$29.7 million and HK\$23.9 million, respectively, due from third parties arising from the disposals of service concession rights held by Suqian City Cheng Bei Water Treatment Co., Ltd. and Suqian City Cheng Bei Wastewater Treatment Co., Ltd., and the ageing analysis of which is as follows:

	As of December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Current	13,591	12,433	10,871
Past due:			
— within 1 year	4,841	—	—
— more than 1 year but within 2 years	4,841	5,147	4,923
— over 2 years	6,517	12,077	8,145
Amounts past due	16,199	17,224	13,068
Total	29,790	29,657	23,939

Our Directors consider the other receivables related to consideration receivable from third parties arising from the disposals of service concession rights to be recoverable. Although the actual settlement amount by third parties has not been strictly in accordance with the contractual repayment schedule, such third parties have been making consistent and regular payments, and the outstanding amounts have decreased gradually over time. In addition, we have received confirmations from such third parties in relation to the amounts of outstanding consideration receivable from them and we expect such amounts to be settled by December 31, 2019.

As of December 31, 2018, the trade receivables of our Group that were past due accounted for 1.8% of our Group’s total assets, which constituted a relatively small proportion as compared to our Group’s overall scale of operation.

### Trade and other payables

Our trade and other payables mainly comprise trade payables, amounts due to fellow subsidiaries, amounts due to intermediate holding companies, amount due to an associate, dividend payable to a non-controlling shareholder of a non-wholly-owned subsidiary, interest payable and other creditors and accrued expenses.

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The following table shows the breakdown of our trade and other payables as of the dates indicated:

	As of December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Trade payables	500,870	1,132,040	1,472,377
Amounts due to fellow subsidiaries	150,182	—	—
Amounts due to intermediate holding companies	78,336	—	4
Dividend payable to a non-controlling shareholder of a non-wholly-owned subsidiary	—	22,444	28,583
Interest payable	6,467	43,963	64,776
Payable for acquisition	—	—	14,994
VAT and other tax payables	21,749	39,261	42,541
Other creditors and accrued expenses	179,634	315,857	271,820
Total	<u>937,238</u>	<u>1,553,565</u>	<u>1,895,095</u>

Our trade and other payables increased by HK\$341.5 million, or 22.0%, to HK\$1,895.1 million as of December 31, 2018 from HK\$1,553.6 million as of December 31, 2017. Such an increase was primarily due to (i) an increase in trade payables by HK\$340.3 million, or 30.1%, to HK\$1,472.4 million as of December 31, 2018 from HK\$1,132.0 million as of December 31, 2017, primarily due to an increase in construction payables which was in line with the increase in construction revenue from service concession arrangements, and (ii) an increase in interest payable by HK\$20.8 million, or 47.3%, to HK\$64.8 million as of December 31, 2018 from HK\$44.0 million as of December 31, 2017 which was due to increase in the borrowings.

Our trade and other payables increased by HK\$616.3 million, or 65.8%, to HK\$1,553.6 million as of December 31, 2017 from HK\$937.2 million as of December 31, 2016. The increase was primarily due to (i) an increase in trade payables by HK\$631.2 million, or 126.0%, to HK\$1,132.0 million as of December 31, 2017 from HK\$500.9 million as of December 31, 2016, mainly attributable to the increase in construction payables which was in line with the increase in construction revenue from service concession arrangements; (ii) an increase in other creditors and accrued expenses by HK\$136.2 million, or 75.8%, to HK\$315.9 million as of December 31, 2017 from HK\$179.6 million as of December 31, 2016, mainly attributable to the increase in payables for employee benefit expenses; (iii) an increase in dividend payable of HK\$22.4 million due to a non-controlling shareholder of a non-wholly-owned subsidiary in the PRC; and (iv) an increase in interest payable by HK\$37.5 million due to increase in the borrowings, partially offset by a decrease in amounts due to fellow subsidiaries and amounts due to intermediate holding companies by HK\$150.2 million and HK\$78.3 million, respectively, as such balances were settled.

We expect to settle the amount due to intermediate holding companies as of December 31, 2018 upon the Listing.

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The aging analysis of trade payables of our Group is as follow:

	As of December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Within 6 months	355,949	984,111	1,219,776
Over 6 months	144,921	147,929	252,601
	<u>500,870</u>	<u>1,132,040</u>	<u>1,472,377</u>

Amounts due to intermediate holding companies of the Group as of December 31, 2016 are balance of HK\$56.0 million, which bear interest at a rate of HIBOR+2.5% per annum, and balance of HK\$22.3 million, which bear interest at a rate of 93% of the rates announced by the PBOC. The amounts due to the intermediate holding companies of the Group as of December 31, 2016 were unsecured and repayable by 2017.

The amounts due to fellow subsidiaries of the Group as of December 31, 2016 were unsecured, interest-bearing at the rates announced by the PBOC and repayable by 2017.

Other than those mentioned above, all trade and other payables of our Group as of December 31, 2016, 2017 and 2018 were non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

The following table sets out our average trade payables turnover days for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	<u>89.3</u>	<u>126.2</u>	<u>151.2</u>
Average trade payables turnover days <sup>(1)</sup>			

Note:

- (1) Average trade payables turnover days for a period is calculated using the average of the beginning and ending trade payables of the period divided by direct costs and operating expenses for that period and multiplied by 365 days for each financial year.

Our average trade payables turnover days were 89.3 days, 126.2 days and 151.2 days for the year ended December 31, 2016, 2017 and 2018. The increase in our average trade payables turnover days was primarily due to increase in trade payables that are related to construction cost as construction payables typically have longer payment periods.

During the Track Record Period, we had a relatively longer settlement period of our trade payables. As of December 31, 2018, the trade payables of our Group amounted to HK\$1,472.4 million.

As of February 28, 2019, 12.6% (or HK\$63.3 million), 12.2% (or HK\$138.2 million) and 59.3% (or HK\$873.4 million) of our outstanding trade payables as of December 31, 2016, 2017 and 2018, being HK\$500.9 million, HK\$1,132.0 million and HK\$1,472.4 million, respectively, remained unsettled.

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We make payments of our trade payables in accordance with the relevant contract terms. Our relatively longer settlement period of our trade payables is primarily due to the following reasons: (i) delay in construction progress for our projects due to factors beyond our control, such as delay in obtaining the relevant land certificates or approvals from the local governments by our contractors which has resulted in the construction progress of certain projects to be temporarily halted (“**Delay in Construction Progress**”); (ii) incompleteness of the internal audit review by the local governments for certain of our projects; consequently, the amounts payable by us for such projects have not been finalized (“**Incompletion of Project Audit Review**”); (iii) ongoing discussion with certain contractors to resolve their non-compliance with the agreed arrangements and requirements stipulated in the relevant contracts, particularly in relation to scope of work (“**Non-Compliance by Contractors**”); (iv) retention by us of a certain proportion of the construction payables during the warranty period, which typically lasts one to two years depending on the terms of the relevant contracts, which will be released upon the expiration of the warranty period (“**Retention of Warranty**”); and (v) undue payables accrued on the basis of the construction progress of our projects (“**Undue Payables Accrued**”).

The following table sets out the breakdown of our outstanding trade payables as of December 31, 2016, 2017 and 2018 that remained unsettled as of February 28, 2019, according to the reasons specified in (i) to (v) above:

<u>Reasons</u>	Remaining balance as of February 28, 2019 of outstanding trade payables as of December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Delay in Construction Progress (“A”)	2,061	2,191	2,096
Incompletion of Project Audit Review (“B”)	23,064	55,240	53,577
Non-Compliance by Contractors (“C”)	15,348	19,951	19,084
Retention of Warranty (“D”)	11,541	31,697	30,320
Undue Payables Accrued (“E”)	6,938	18,958	599,600
Total (A+B+C+D+E)	58,952	128,037	704,677
Total remaining balance as of February 28, 2019	63,292	138,212	873,376
Percentage of total remaining balance as of February 28, 2019 attributable to A, B, C, D and E (%)	93.1%	92.6%	80.7%

With reference to the above table, the major reasons for the relatively longer settlement period of our trade payables are due to (i) Incompletion of Project Audit Review, which is beyond the control of our Group; (ii) Retention of Warranty in accordance with the terms of the relevant contracts; and (iii) Undue Payables Accrued, where creditors have not issued payment requests to us in accordance with the relevant contract terms and agreement but our Group has recognized such payables on the basis of accrual accounting. In addition, in relation to the Non-Compliance by Contractors, we have been engaging, and intend to continue to engage, in constant discussion with our suppliers and/or contractors to manage and achieve resolution of the issues involved. We will promptly settle our outstanding trade payables to the extent that any non-compliance by our suppliers and/or contractors with the agreed arrangements and requirements stipulated in the relevant contracts has been satisfactorily rectified so that the payment conditions would be met.

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## FINANCIAL INFORMATION

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Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no material default in payment of trade payables.

### Service concession financial receivables

We accrue service concession financial receivables throughout a concession period. Our service concession financial receivables refer to the outstanding receivables arising from our construction services (for BOT projects) or acquisition considerations (for TOT projects), adjusted by operation revenue and finance income after deducting the tariff payments accrued throughout a concession period. Under our BOT and TOT agreements, the amount of service concession financial receivables will be settled by tariff payments to be received during the operation phases of our BOT and TOT projects. The portion of the service concession financial receivables due within twelve months from a particular balance sheet date are classified as current assets as of that balance sheet date and the remainder are classified as non-current assets.

Our service concession financial receivables that were classified as current assets amounted to HK\$791.6 million, HK\$1,200.5 million and HK\$1,424.2 million as of December 31, 2016, 2017 and 2018, respectively. The increase in service concession financial receivables that were classified as current assets from HK\$791.6 million to HK\$1,424.2 million over the Track Record Period was primarily due to an increase in the number of service concession projects in operation and projects that are expected to commence operation in the coming twelve months from the respective balance sheet date.

Our service concession financial receivables that were classified as non-current assets amounted to HK\$8,179.7 million, HK\$10,313.7 million and HK\$11,727.8 million as of December 31, 2016, 2017 and 2018, respectively. The increase in service concession financial receivables that were classified as non-current assets from HK\$8,179.7 million to HK\$11,727.8 million over the Track Record Period was primarily due to an increase in the number of service concession projects which were under construction or in operation.

### Inventories

	As of December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Raw materials and consumables	14,323	14,342	40,436

Our inventories mainly comprise raw materials and consumables held for internal uses, such as treatment chemicals, consumables used in the repair and maintenance of our facilities and other raw materials.

Our inventories amounted to HK\$14.3 million, HK\$14.3 million and HK\$40.4 million as of December 31, 2016, 2017 and 2018, respectively. The increase in inventories between December 31, 2017 and 2018 was mainly due to an increase in construction materials for certain projects.

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As of February 28, 2019, approximately 35.4% of our inventories as of December 31, 2018 had been consumed.

The following table sets out our average inventory turnover days for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	2.9	2.2	3.2
Average inventory turnover days <sup>(1)</sup>			

*Note:*

- (1) Average inventory turnover days for a period is calculated using the average of the beginning and ending inventories of the period divided by direct costs and operating expenses for that period and multiplied by 365 days for each financial year.

Average inventory turnover days remained relatively stable throughout the Track Record Period.

### Intangible assets

Our intangible assets consist primarily of concession rights, patents and trademarks, computer software, and backlog contracts. The carrying amounts of intangible assets were HK\$1,259.4 million, HK\$1,489.7 million and HK\$1,536.2 million as of December 31, 2016, 2017 and 2018, respectively, and consisted mainly of intangible assets in service concession arrangements, which were HK\$1,233.2 million, HK\$1,474.8 million and HK\$1,515.0 million, respectively. The intangible assets in our service concession arrangements mainly reflect our right to receive tariff payments that is contingent on the extent of the public's usage of our service, and not guaranteed by payments for minimum treatment volume. Our intangible assets in service concession arrangements are measured on initial recognition at cost and are subsequently amortized over 20 to 32 years and will be assessed for impairment whenever there is an indication that the service concession may be impaired. The increase in intangible assets over the Track Record Period is largely due to our acquisitions and increase in investment in service concession projects with non-guaranteed revenue stream.

### Goodwill

	As of 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Cost and net carrying amount at the beginning of the year	1,268,925	1,185,478	1,259,922
Acquisition of subsidiaries	—	—	39,835
Exchange realignment	(83,447)	74,444	(57,044)
Cost and net carrying amount at the end of the year	1,185,478	1,259,922	1,242,713

The goodwill arising from the acquisitions is attributable mainly to the expected synergies from combining operations of the acquiree and acquirer. None of the goodwill acquired is expected to be deductible for tax purposes.

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## FINANCIAL INFORMATION

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For the purpose of impairment testing, goodwill has been allocated to the water environment management segment as of December 31, 2016, 2017 and 2018. The recoverable amount of the water environment management segment is determined as the higher of the segment's fair value less costs of disposal and its value in use. The recoverable amount of the water environment management segment as of December 31, 2016 was based on fair value less costs of disposal, while the recoverable amount of the water environment management segment as of December 31, 2017 and 2018 was based on value in use of the segment.

Our Group's testing approach adopted as of December 31, 2016 included a comparison of its market capitalization with our Group's net assets, which represented the net assets of the water environment management segment. Under this approach, the market capitalization is the fair value of the water environment management segment. Costs of disposal were assessed as insignificant. The market capitalization was categorized as a Level 1 fair value measurement, and was calculated based on the share price of our Company of SGD0.500 (equivalent to HK\$2.677) as of December 31, 2016 quoted on the SGX-ST. Under this approach, the estimated recoverable amount exceeded the carrying amount and we concluded that the goodwill was not impaired at December 31, 2016.

The sensitivity analysis set forth below has been determined based on the exposure to the share price of our Company quoted on the SGX-ST, representing the key input to the determination of the market capitalization.

The headroom of our Group of cash-generating units within the water environment management segment is set forth below:

	<u>As of</u> <u>December 31, 2016</u>
	HK\$'000
Headroom	189,000

Had the key assumption been changed as below, the headroom would be increased/ (decreased) by:

	<u>As of</u> <u>December 31, 2016</u>
	HK\$'000
Share price increased by SGD 0.01	140,000
Share price decreased by SGD 0.01	(140,000)

As of December 31, 2017 and 2018, due to the decrease of the share price of our Company compared to December 31, 2016, the water environment management segment's recoverable amount calculated based on the fair value less costs of disposal was lower than its value in use. As the recoverable amount is determined based on the higher of the fair value less costs of disposal and value in use under IAS 36, the basis of determining the recoverable amount as of December 31, 2017 and 2018 was changed to the value in use method.

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The recoverable amount of the group of cash-generating units within the water environment management segment as of December 31, 2017 and 2018 was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period using a growth rate of 6% to 10% approved by management. The pre-tax discount rates applied to the cash flow projections were 11.5% for the year ended December 31, 2017 and 11.2% for the year ended December 31, 2018, and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. Management determined the budgets based on service concession arrangements governing the relevant operations. Based on the assessment, no impairment provision was necessary as of December 31, 2017 and 2018. Management believes that any reasonably possible changes to the key assumptions applied would not lead to impairment of goodwill as of December 31, 2017 and 2018.

The sensitivity analysis set forth below has been determined based on the exposure to the pre-tax discount rate and five-year period growth rate, representing the key inputs to the determination of the recoverable amount.

The headroom of our Group of cash-generating units within the water environment management segment is set forth below:

	As of	
	December 31, 2017	December 31, 2018
	HK\$'000	HK\$'000
Headroom	500,000	4,459,000

Had the estimated key assumptions been changed as below, the headroom would be increased / (decreased) by:

	As of	
	December 31, 2017	December 31, 2018
	HK\$'000	HK\$'000
Pre-tax discount rate increased by 0.2%	(329,000)	(424,000)
Pre-tax discount rate decreased by 0.2%	341,000	439,000
Five-year period growth rate increased by 5%	283,000	384,000
Five-year period growth rate decreased by 5%	(283,000)	(381,000)

A respective increase in the discount rate from the original rate of 11.5% and 11.2% by 0.3% and 2.5% to 11.8% and 13.7%, respectively; or a decrease in the five-year period growth rate by 9% and 61% of the original five-year period growth rate respectively, as of December 31, 2017 and 2018, would remove the remaining headroom.



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## FINANCIAL INFORMATION

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### CAPITAL EXPENDITURES AND INVESTMENT

The following table sets out our expenditures for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Consideration paid for acquisition of subsidiaries	—	—	84,952
Construction cost incurred for BOT projects	896,576	1,634,636	2,131,808
Consideration for acquisition of TOT projects	367,066	276,918	19,448
Additions of intangible assets (excluding concession rights)	988	1,418	39
Additions of property, plant and equipment and prepaid land lease payments	11,864	9,741	11,176
	<u>1,276,494</u>	<u>1,922,713</u>	<u>2,247,423</u>

Our capital expenditures are related to the acquisition of subsidiaries, construction and acquisition of our new projects, purchase of property, plant and equipment and prepaid land lease payments and intangible assets and were historically funded with our internal capital resources, bank and other loans and corporate bonds. The increase of HK\$324.7 million in our total capital expenditures from the year ended December 31, 2017 to the year ended December 31, 2018 was primarily due to an increase in construction cost incurred for BOT projects and an increase in capital expenditure for the acquisition of Xuzhou Design Institute during the year ended December 31, 2018. The increase of HK\$646.2 million in our total capital expenditures from the year ended December 31, 2016 to the year ended December 31, 2017 was primarily due to commencement of construction of water environment treatment pipeline projects during the year ended December 31, 2017.

Our planned capital expenditure for the year ending December 31, 2019 is HK\$3,183.1 million. These planned capital expenditures will be mostly used for the construction of new projects in our pipeline. We plan to fund our future capital expenditures with our internal capital resources, bank and other loans including future project financings available to us, corporate bond and the proceeds from the Global Offering. Under the PRC laws, we may finance each project of up to 66.7% of the total project investment amounts from external sources. We expect such project financings to become available for the relevant project in the future.

### CONTRACTUAL COMMITMENTS

#### Capital commitments

In addition to the operating lease commitments stated below, our Group had outstanding purchase commitments in connection with the Group's construction contracts of HK\$857.1 million, HK\$681.6 million and HK\$1,936.3 million as of December 31, 2016, 2017 and 2018, respectively.

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### Operating lease commitments

During the Track Record Period, we entered into several operating leases for office premises and staff accommodation. These leases do not contain renewal options and there were no restrictions placed upon us by entering into these leases. The following table sets out our total future aggregate minimum lease payments under non-cancellable operating leases as of each date indicated:

	As of December 31,		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Within 1 year	6,807	11,079	7,098
After 1 year but within 5 years	5,239	4,575	3,073
After 5 years	544	2,312	507
	<u>12,590</u>	<u>17,966</u>	<u>10,678</u>

### INDEBTEDNESS

#### Borrowings

Our borrowings during the Track Record Period primarily consisted of bank and other loans and corporate bonds. Our bank and other loans include loans from a related party bank amounting to HK\$32.5 million, nil, nil and nil as of December 31, 2016, 2017 and 2018 and February 28, 2019, respectively. Our borrowings as of December 31, 2016, 2017 and 2018 and February 28, 2019, for the purpose of calculating our indebtedness, were as follows:

	As of December 31,			As of
	2016	2017	2018	February 28,
	HK\$'000	HK\$'000	HK\$'000	2019
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
<b>Non-current</b>				
Bank and other loans	3,366,091	3,546,995	3,404,972	4,108,198
Corporate bonds	—	1,181,035	2,035,404	2,883,174
	<u>3,366,091</u>	<u>4,728,030</u>	<u>5,440,376</u>	<u>6,991,372</u>
<b>Current</b>				
Bank and other loans	1,521,407	1,903,722	2,160,400	1,755,089
	<u>4,887,498</u>	<u>6,631,752</u>	<u>7,600,776</u>	<u>8,746,461</u>

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The interest rates of our fixed interest rate borrowings ranged from 2.88% to 4.60% per annum, and the interest rates of our variable interest rate borrowings were ranged from 2.20% to 6.00% per annum, respectively, as of December 31, 2016, 2017 and 2018 and February 28, 2019.

	As of December 31,			As of
	2016	2017	2018	February 28,
	HK\$'000	HK\$'000	HK\$'000	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured	2,397,781	2,707,561	2,515,950	2,204,412
Unsecured	2,489,717	3,924,191	5,084,826	6,542,049
	<u>4,887,498</u>	<u>6,631,752</u>	<u>7,600,776</u>	<u>8,746,461</u>

As of December 31, 2016, 2017 and 2018 and February 28, 2019, 49.1%, 40.8%, 33.1% and 25.2% of our borrowings, respectively, were secured. The assets used to secure our borrowings include certain revenue, receivables and intangible assets in connection with the Group's service concession arrangements and pledged bank deposits of the Group. As of February 28, 2019, borrowings of HK\$2,204.4 million were secured and HK\$6,542.0 million were unsecured.

Our loan agreements typically include material covenants such as requirements to promptly notify the lending banks in the event of any material adverse changes in our operations or financial condition. There are restrictions on the use of proceeds from the bank loans. We are typically required to obtain the relevant lending bank's prior written consent before we conduct certain significant business actions such as reorganizations, mergers, capital reductions, transfer of major assets, making material investments, substantial increase of debt financing or other actions that may adversely affect our ability to repay the loans. We cannot assure you that we are always able to obtain the lending bank's consent for any of these activities. If we fail to obtain such consent, our business may be adversely affected. See "Risk Factors — Risks Relating to Our Business and Industry".

Our loan agreements may also include material financial covenants determined in accordance with PRC GAAP. Furthermore, we may be required to provide additional guarantees upon the lending banks' request if any changes in our guarantor adversely affect the guarantee granted by the guarantor to the lending banks.

Our Directors confirm that we complied with all material covenants under our loan agreements during the Track Record Period.

Bank loan facilities and other loans in the amount of HK\$2,554.1 million, HK\$2,924.9 million, HK\$2,754.5 million and HK\$2,312.6 million as of December 31, 2016, 2017 and 2018 and February 28, 2019, respectively, were secured by certain revenue, receivables and intangible assets in connection with our service concession arrangements and pledged bank deposits. Among these secured bank loan facilities and other loans, HK\$2,397.8 million, HK\$2,707.6 million, HK\$2,516.0 million and HK\$2,204.4 million were utilized as of December 31, 2016, 2017 and 2018 and February 28, 2019, respectively.

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Bank loan facilities in the amount of HK\$4,398.3 million, HK\$4,589.3 million, HK\$6,793.7 million and HK\$7,445.4 million as of December 31, 2016, 2017 and 2018 and February 28, 2019, were unsecured, among which HK\$2,489.7 million, HK\$2,743.2 million, HK\$3,049.4 million and HK\$3,658.9 million, respectively, were utilized.

As of February 28, 2019, we had unutilized bank loan facilities of HK\$3,894.7 million. Bank loan facilities in the amount of HK\$3,237.4 million, HK\$3,377.2 million, HK\$5,233.7 million and HK\$5,434.2 million as of December 31, 2016, 2017 and 2018 and February 28, 2019, respectively, are subject to the fulfilment of covenants relating to certain of our financial ratios. If we breach the covenants, the drawn-down facilities would become payable on demand. As of December 31, 2016, 2017 and 2018 and February 28, 2019, HK\$2,616.4 million, HK\$2,878.2 million, HK\$3,772.4 million and HK\$3,489.0 million, respectively, of such bank loan facilities were utilized. We regularly monitor our compliance with these covenants. As of December 31, 2016, 2017 and 2018 and February 28, 2019, none of the covenants relating to these facilities was breached. Certain bank loan facilities also restrict some of the Company's subsidiaries from declaring or paying dividends to shareholders without obtaining prior written approval of the banks or require the Group to process wastewater treatment operating fee via respective financial institutions.

The following table sets forth the maturity profile of our borrowings as of each date indicated:

	As of December 31,			As of
	2016	2017	2018	February 28, 2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year or on demand	1,521,407	1,903,722	2,160,400	1,755,089
After 1 year but within 5 years	2,736,178	3,897,204	4,647,557	5,848,974
After 5 years	629,913	830,826	792,819	1,142,398
<b>Total</b>	<b><u>4,887,498</u></b>	<b><u>6,631,752</u></b>	<b><u>7,600,776</u></b>	<b><u>8,746,461</u></b>

Except as disclosed above, as of February 28, 2019, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loans from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding.

We confirm that there has not been any material adverse change in our indebtedness since February 28, 2019 and up to the date of this Prospectus.

### RELATED PARTY TRANSACTIONS

In addition to related party transactions and balances disclosed elsewhere in this Prospectus, we entered into certain related party transactions with a related party bank, fellow subsidiaries, intermediate holding companies, an associate and non-controlling shareholders of non-wholly-owned

## FINANCIAL INFORMATION

subsidiaries of the Group. See Note 36 to the Accountant's Report in Appendix I to this Prospectus for further details of related party transactions. The following table sets forth the amount of transactions entered into with the fellow subsidiaries and intermediate holding companies of the Group for the years indicated:

	Notes	For the year ended 31 December		
		2016	2017	2018
		HK\$'000	HK\$'000	HK\$'000
Sales of equipment	(i)	—	—	49,279
Rental expenses	(ii)	3,804	5,245	6,177
Interest expenses	(iii)	10,534	7,311	—
Underwriting service fee	(iv)	—	5,759	4,746
Costs of operation	(v)	—	—	2,490
Listing related fee	(vi)	—	—	1,763
Insurance expenses	(vii)	<u>152</u>	<u>978</u>	<u>1,463</u>

Notes:

- (i) The sales of equipment to fellow subsidiaries of the Group were conducted based on mutually agreed terms.
- (ii) The rental expenses of offices were charged by a fellow subsidiary of the Group on mutually agreed terms.
- (iii) The interest expenses in respect of the advances from fellow subsidiaries and intermediate holding companies, which were repayable by 2017, were charged at rates ranging from HIBOR+2.5% per annum to the rates announced by the PBOC.
- (iv) The underwriting service fees for the issue of the first and second tranches of the corporate bond paid to a fellow subsidiary were calculated pursuant to the relevant underwriting agreement.
- (v) The costs of operation were paid for the sludge disposal services provided by fellow subsidiaries of the Group.
- (vi) The listing related fee was charged by a fellow subsidiary of the Group on mutually agreed terms.
- (vii) The insurance expenses were charged by a fellow subsidiary of the Group on mutually agreed terms.

The Directors confirm that all related party transactions disclosed herein were negotiated on an arm's length basis, reflected normal commercial terms and that their terms are fair and reasonable to us, and they would not distort our results during the Track Record Period or otherwise make our historical results not reflective of our future performance.

### CONTINGENT LIABILITIES

During the Track Record Period, we did not have significant contingent liabilities. As of the Latest Practicable Date, we were not involved in any material legal proceedings, nor were we aware of any pending or potential material legal proceedings involving our Group. If our Group is involved in any material legal proceedings in the future, and based on the information then available, if it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated, we will then record a liability.

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## FINANCIAL INFORMATION

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### FINANCIAL RATIOS

The following table sets forth certain of our financial ratios as of the dates or for the years indicated:

	As of/For the year ended December 31,		
	2016	2017	2018
Return on assets <sup>(1)</sup>	2.7%	3.6%	3.9%
Return on equity <sup>(2)</sup>	5.1%	7.4%	8.6%
Current ratio <sup>(3)</sup>	1.3	1.4	1.2
Quick ratio <sup>(4)</sup>	1.3	1.4	1.2
Asset-liability ratio <sup>(5)</sup>	48.9%	52.7%	55.8%
Gearing ratio <sup>(6)</sup>	68.0%	77.6%	87.7%
Interest coverage ratio <sup>(7)</sup>	3.6	4.5	4.6
Gross profit margin <sup>(8)</sup>	36.3%	34.3%	34.1%
Net profit margin <sup>(9)</sup>	14.9%	16.2%	15.5%

*Notes:*

- (1) Return on assets is calculated by dividing profit for the year by the average of total assets as of the beginning of the year and the end of the year.
- (2) Return on equity is calculated by dividing profit for the year by the average of total equity as of the beginning of the year and the end of the year.
- (3) Current ratio is calculated by dividing current assets by current liabilities at the end of each year.
- (4) Quick ratio is calculated by dividing current assets less inventories by current liabilities at the end of each year.
- (5) Asset-liability ratio is calculated by dividing total liabilities by total assets at the end of each year.
- (6) Gearing ratio is calculated by dividing total borrowings by total equity at the end of each year.
- (7) Interest coverage ratio is calculated by dividing our EBIT by finance costs for each year.
- (8) Gross profit margin is calculated by dividing gross profit for the year by revenue of the stated period.
- (9) Net profit margin is calculated by dividing profit for the year by revenue of the stated period.

#### ***Return on Assets***

Our return on assets increased from 2.7% for the year ended December 31, 2016 to 3.6% for the year ended December 31, 2017, primarily due to an increase in the profit for the year ended December 31, 2017. Our return on assets increased from 3.6% for the year ended December 31, 2017 to 3.9% for the year ended December 31, 2018, primarily due to an increase in the profit for the year ended December 31, 2018.

#### ***Return on Equity***

The increase in our return on equity ratio from 5.1% for the year ended December 31, 2016 to 7.4% for the year ended December 31, 2017 was primarily due to an increase in the profit for the year

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ended December 31, 2017. The increase in our return on equity ratio from 7.4% for the year ended December 31, 2017 to 8.6% for the year ended December 31, 2018 was primarily due to an increase in the profit for the year ended December 31, 2018.

### *Current Ratio*

As of December 31, 2016, 2017 and 2018, our current ratio remained relatively stable, being 1.3 times, 1.4 times and 1.2 times, respectively.

### *Quick Ratio*

As of December 31, 2016, 2017 and 2018, our quick ratio remained relatively stable, being 1.3 times, 1.4 times and 1.2 times, respectively.

### *Asset-Liability Ratio*

As of December 31, 2016, 2017 and 2018, our asset-liability ratio remained relatively stable, being 48.9%, 52.7% and 55.8%, respectively.

### *Gearing Ratio*

The increase in our gearing ratio from 68.0% as of December 31, 2016 to 77.6% as of December 31, 2017 was primarily due to an increase in borrowings for the purpose of project development during the year ended December 31, 2017.

The increase in our gearing ratio from 77.6% as of December 31, 2017 to 87.7% as of December 31, 2018 was primarily due to an increase in borrowings for the purpose of project development during the year ended December 31, 2018.

### *Interest Coverage Ratio*

The increase in our interest coverage ratio from 3.6 times for the year ended December 31, 2016 to 4.5 times for the year ended December 31, 2017 was primarily because of increase in the EBIT for the year ended December 31, 2017.

Our interest coverage ratio remained relatively stable, being 4.5 times and 4.6 times, for the years ended December 31, 2017 and 2018, respectively.

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

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### DISTRIBUTABLE RESERVES

As of December 31, 2018, our Company had distributable profits of HK\$7,840.2 million, which represent the distributable reserves comprising contributed surplus reserve amounted to HK\$7,639.1 million and retained earnings amounted to HK\$201.1 million available for distribution to our Shareholders under Bermuda law.

### DIVIDEND POLICY

Subject to the Bermuda Companies Act and our Bye-laws, our Board may declare a dividend in any currency to be paid to the Shareholders and such dividend may be paid in cash or wholly or partly in specie in which case the Board may fix the value for distribution in specie of any assets. The Board may declare and make such other distributions (in cash or in specie) to the Shareholders as may be lawfully made out of the assets of the Company. The Company in general meeting may also, subject to the Bye-laws and in accordance with the Bermuda Companies Act, declare a dividend or such other distribution to be paid to the Shareholders but no dividend or distribution shall be declared by the Company in general meeting in excess of the amount recommended by the Board.

Pursuant to our Bye-laws, unless and to the extent that the rights attached to any Shares or the terms of issue thereof otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid on the Shares during any portion or portions of the period in respect of which the dividend is paid. For such purposes no amount paid on a Share in advance of calls shall be treated as paid on the Share.

Pursuant to our Article of Association, our Board may retain any dividends or other moneys payable on or in respect of a Share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. Our Board may also deduct from any dividends or other money payable to any of our Shareholders all sums of money (if any) presently payable by such Shareholders to our Company on account of calls, instalments or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Board, and the amounts of dividends actually declared and paid will also depend on:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of our shareholders; and
- any other factors which our Board may deem relevant.



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Our future dividend payments to our Shareholders will also depend upon the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles. PRC laws also require PRC enterprises to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends.

Our Company has adopted the Scrip Dividend Scheme on October 28, 2005 to provide Shareholders with the option to elect to receive Shares in lieu of the cash amount of any dividend declared on their holding of Shares. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on April 12, 2019, our Directors were authorized to allot and issue from time to time such number of Shares in the Company as may be required to be allotted and issued pursuant to the terms and conditions of the Scrip Dividend Scheme until the next annual general meeting of the Company.

We have declared final dividends of HK\$52.3 million and HK\$77.0 million for the years ended December 31, 2016 and 2017, and an interim dividend of approximately HK\$74.6 million for the six months ended June 30, 2018. We have approved a final dividend of HK\$77.2 million for the year ended December 31, 2018, where eligible Shareholders (being our Shareholders as at April 17, 2019) could elect between a cash dividend and a scrip dividend. The dividend payment is not indicative of any current or future dividend policy and our Board has absolute discretion in deciding whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. We currently do not have a dividend policy. The determination to pay dividends will be made at the discretion of our Board and will be based upon our earnings, cash flows, financial condition, capital requirements, statutory reserve requirements and any other condition that our Directors deem relevant. The payment of dividends may also be limited by legal restriction and by financing agreements that we may enter into in the future. There can be no assurance that dividends of any amount will be declared or distributed in any year.

### DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which, had we been required to comply with the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### REPORTING STANDARDS OF OUR COMPANY'S FINANCIAL STATEMENTS

Since our Company is listed on the main board of the SGX-ST, our Company's annual financial statements are prepared in accordance with IFRSs and audited by Ernst & Young LLP in Singapore. For the purpose of the Listing, our Company has prepared a set of financial statements for each of the years ended December 31, 2016, 2017 and 2018 in accordance with IFRSs and engaged Ernst & Young in Hong Kong to act as our reporting accountants in connection with the Listing.

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## FINANCIAL INFORMATION

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After the Listing, the Company will prepare its consolidated financial statements in accordance with IFRS and would include in its subsequent annual reports.

Ernst & Young LLP will continue to be the auditor of the Group subsequent to the Listing, and conduct audit in accordance with ISA under Rule 19.21.

Our Company believes that Ernst & Young LLP is a firm of certified accountants acceptable to the Hong Kong Stock Exchange in accordance with the requirements of Rule 19.20(2) of the Listing Rules on the grounds that:

- Ernst & Young LLP is the member firm of certified the network of Ernst & Young Global Limited, each of which is a separate and independent legal entity. Ernst & Young LLP is an accounting limited liability partnership registered in Singapore under the Limited Liability Partnership Act (Cap 163A) of the laws of the Republic of Singapore.
- Ernst & Young LLP is subject to the independent oversight and regulation of the Accounting and Corporate Regulatory Authority (“ACRA”), which is a statutory board of the Government of Singapore and the national regulator of business entities and public accountants in Singapore. ACRA is also a founding member of the International Forum of Independent Audit Regulators (“IFIAR”) and has representative on the IFIAR’s Advisory Council.
- The partner in Ernst & Young LLP who signs the statutory audit report of the Company is a registered public accountant with the ACRA and is also a practising member of the Institute of Singapore Chartered Accountants (“ISCA”).

### NO MATERIAL ADVERSE CHANGE

In January 2019, we issued the Third Tranche Panda Bonds with a principal amount of RMB700.0 million, bearing a coupon rate of 3.89% for a five-year maturity period. The interest shall be paid annually and the principal of RMB700.0 million would be paid after the maturity of the Third Tranche Panda Bonds.

Our Directors confirm that, up to the date of the Prospectus, save as disclosed above, there has been no material adverse change in our financial or trading position since December 31, 2018 and there has been no event since December 31, 2018 which would materially affect the information shown in the Accountants’ Report as set out in Appendix I to this Prospectus.

### LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and, assuming an offer price of HK\$3.67 per Share, being the

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mid-point of the proposed offer price range, are estimated to be HK\$60.0 million, assuming the Over-allotment Option is not exercised, of which HK\$31.7 million was recognized as expenses in our consolidated income statements for the year ended December 31, 2018. We expect HK\$18.4 million of the listing expenses is expected to be recognized as expenses in our consolidated income statements during the year ending December 31, 2019 and the remaining HK\$9.9 million is expected to be accounted for as a deduction from equity upon Listing. We do not expect these expenses to have a material impact on our results of operations for 2019. The listing expenses above are the latest practicable estimate and are for reference only. The actual amount may differ from this estimate.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISK

We are exposed to various types of financial risks, including market risk (covering currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risks. Our overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

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### *Interest rate risk*

Our interest rate risk arises primarily from our bank deposits, borrowings and balances with group companies. Borrowings and balances with group companies issued at variable rates and at fixed rates expose us to cash flow interest rate risk and fair value interest rate risk respectively. We do not use financial derivatives to hedge against the interest rate risk. The following table sets forth our interest rate profile as of the dates indicated:

	As of December 31, 2016		As of December 31, 2017		As of December 31, 2018	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
	%		%		%	
<b>Net fixed rate borrowings/ (deposits):</b>						
Borrowings	2.88-2.90	498,919	2.88-4.55	1,706,219	2.88-4.60	2,532,678
Less: Fixed deposits with maturity period over three months	0.15	(543,340)	0.15-3.80	(630,403)	0.15	(547,050)
Cash and cash equivalents	—	—	4.40	(95,000)	1.75	(9,769)
Amount due from an associate	—	—	—	—	4.75	(4,029)
		(44,421)		980,816		1,971,830
<b>Net variable rate borrowings/ (deposits):</b>						
Borrowings	2.20-6.00	4,388,579	2.60-4.90	4,925,533	2.95-5.02	5,068,098
Amounts due to fellow subsidiaries and intermediate holding companies	3.77-4.75	228,518	—	—	—	—
Less: Cash and cash equivalents	0.01-1.75	(1,359,401)	0.01-1.75	(2,074,414)	0.01-1.76	(1,718,804)
		3,257,696		2,851,119		3,349,294
<b>Total net borrowings</b>		3,213,275		3,831,935		5,321,124

It is estimated that a general increase/decrease of one percent in interest rates as of December 31, 2016, 2017 and 2018, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately HK\$32.1 million, HK\$38.3 million and HK\$53.2 million for the years ended December 31, 2016, 2017 and 2018, respectively.

The sensitivity analysis above indicates the instantaneous change in our profit before tax that would arise assuming that the change in interest rates had occurred at the end of the years ended December 31, 2016, 2017 and 2018 and had been applied to re-measure those financial instruments we hold which expose us to fair value interest rate risk for the relevant periods. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments we held at the end of the years ended December 31, 2016, 2017 and 2018, the impact on our profit before tax is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis throughout the Track Record Period.

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### Foreign currency risk

The following table sets forth our exposure to currency risk at the end of the period indicated arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK\$, translated using the spot rate as of the end of the applicable period. Differences resulting from the translation of the financial information of foreign operations into our presentation currency are excluded.

	As of December 31,													
	2016						2017						2018	
	RMB HK\$'000	SGD HK\$'000	HK\$	USD HK\$'000	RMB HK\$'000	SGD HK\$'000	HK\$	USD HK\$'000	RMB HK\$'000	SGD HK\$'000	HK\$	USD HK\$'000		
Cash and cash equivalents	91,969	2,511	149	127,590	9,294	1,916	140,917	329	1,712	1,205	36,998	35,454		
Fixed deposits with maturity period over three months	—	—	—	543,340	—	—	—	547,278	—	—	—	547,050		
Amounts due from / (to) group companies (net)	226,724	10,267	35,703	—	394,324	(55)	267,142	—	602,360	(54)	531,732	—		
Borrowings	—	—	—	(1,960,584)	—	—	(337,000)	(1,916,057)	—	—	(1,476,918)	(1,052,583)		
Trade and other payables	(6,981)	(1,675)	(10,924)	(7,710)	(7,685)	(918)	(6,034)	(22,667)	(4,578)	(1,437)	(6,162)	(22,624)		
Net exposure	<b>311,712</b>	<b>11,103</b>	<b>24,928</b>	<b>(1,297,364)</b>	<b>395,933</b>	<b>943</b>	<b>65,025</b>	<b>(1,391,117)</b>	<b>599,494</b>	<b>(286)</b>	<b>(914,350)</b>	<b>(492,703)</b>		

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The following table sets forth the instantaneous change in our profit before tax that would arise if foreign exchange rates to which we have significant exposure at the end of the respective years indicated had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HK\$ and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies. Except for those subsidiaries with their functional currencies other than HK\$, the impact of foreign exchange rate fluctuations with respect to the assets and liabilities denominated in USD is insignificant as HK\$ is pegged to the USD.

	For the year ended December 31,					
	2016		2017		2018	
	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax
	%	HK\$'000	%	HK\$'000	%	HK\$'000
RMB	10	31,171	10	39,593	10	59,949
	(10)	(31,171)	(10)	(39,593)	(10)	(59,949)
SGD	10	1,110	10	94	10	(29)
	(10)	(1,110)	(10)	(94)	(10)	29
HK\$	10	2,493	10	6,503	10	(91,435)
	(10)	(2,493)	(10)	(6,503)	(10)	91,435
USD	10	36,105	10	27,551	10	101,257
	(10)	(36,105)	(10)	(27,551)	(10)	(101,257)
EUR	—	—	10	504	—	—
	—	—	(10)	(504)	—	—

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on profit before tax of each of the entities in our Group measured in the respective functional currencies, translated into HK\$ at the exchange rate ruling at the end of the applicable period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by us which expose us to foreign currency risk at the end of the years indicated, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into our presentation currency. The analysis is performed on the same basis throughout the Track Record Period.

### *Credit risk*

Credit risk refers to the risk that a customer or counterparty fails to discharge an obligation resulting in a financial loss to the Group.

Our Group's credit risk is primarily attributable to its service concession financial receivables and trade and other receivables. Our Group establishes an allowance for impairment that represents

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our estimate of incurred losses in respect of service concession financial receivables and trade and other receivables. If we consider that no recovery of the amount owing is possible, the financial asset will be written off against the carrying amount of the impaired financial asset.

Since the counterparties for service concession financial receivables are local government authorities in different provinces in the PRC, we consider our credit risk low in this regard. We estimate the recoverability of the trade and other receivables based on prior experience of our Group's management and the current economic environment. We monitor the service concession financial receivables and trade and other receivables on an ongoing basis.

Debts are usually due within 30 to 90 days from the date of billing. As of December 31, 2016, 2017 and 2018, "Trade and other receivables" and "Service concession financial receivables" amounted to HK\$9,569.9 million, HK\$12,330.6 million and HK\$14,336.3 million, respectively, of which HK\$1,661.2 million, HK\$697.8 million and HK\$2,869.5 million were due from the largest customer and HK\$4,150.5 million, HK\$3,716.9 million and HK\$5,369.0 million were due from the five largest customers in aggregate of the Group, respectively. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position.

Our Group does not hold any collateral, hence the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position.

As our operations are based in the PRC, our Group's credit exposure is concentrated mainly in the PRC. Concentration of credit risk exists when changes in economic, industry or geographic factors would affect our counterparties whose aggregate credit exposure is significant in relation to our Group's total credit exposure. For an aging analysis of trade and other receivables of our Group, please refer to the paragraph "Trade and other receivables".

### *Liquidity risk*

Liquidity risk refers to the risk that our Group may not be able to meet its financial obligations as they fall due. Our individual operating entities are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands. Our policy is to regularly monitor our liquidity requirements and our compliance with lending covenants to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

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The following table sets forth the remaining contractual maturities of our non-derivative financial liabilities as of the dates indicated, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date we can be required to pay:

		As of December 31, 2016					
		Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	
Carrying amount	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Financial liabilities included in trade and other payables	882,968	907,428	907,428	—	—	—	
Borrowings	4,887,498	5,527,833	1,722,863	743,418	2,359,098	702,454	
	<u>5,770,466</u>	<u>6,435,261</u>	<u>2,630,291</u>	<u>743,418</u>	<u>2,359,098</u>	<u>702,454</u>	
		As of December 31, 2017					
		Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	
Carrying amount	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Financial liabilities included in trade and other payables	1,493,486	1,493,486	1,493,486	—	—	—	
Borrowings	6,631,752	7,354,040	2,143,557	1,777,688	2,498,799	933,996	
	<u>8,125,238</u>	<u>8,847,526</u>	<u>3,637,043</u>	<u>1,777,688</u>	<u>2,498,799</u>	<u>933,996</u>	
		As of December 31, 2018					
		Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	
Carrying amount	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Financial liabilities included in trade and other payables	1,784,866	1,784,866	1,784,866	—	—	—	
Borrowings	7,600,776	8,097,201	2,433,845	1,978,535	3,226,295	458,526	
	<u>9,385,642</u>	<u>9,882,067</u>	<u>4,218,711</u>	<u>1,978,535</u>	<u>3,226,295</u>	<u>458,526</u>	



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## FUTURE PLANS AND USE OF PROCEEDS

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### Future Plans

Please see “Business — Our Business Strategies” in this Prospectus for a detailed discussion of our future plans.

### Use of Proceeds

We estimate that the net proceeds we will receive from the Global Offering (after deducting underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering) will be approximately HK\$321.6 million, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$3.67 per Share, being the mid-point of the Offer Price range of HK\$2.99 to HK\$4.35 per Share as stated in this Prospectus. If the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK\$56.1 million (after deducting underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$3.67 per Share, being the mid-point of the Offer Price range of HK\$2.99 to HK\$4.35 per Share as stated in this Prospectus. In order to further highlight and enhance core competitiveness, to improve profitability and subsequent development capacity, and to achieve our strategic goals, we currently intend to apply these net proceeds toward the development our pipeline projects and providing further liquidity for us, details of which are as follows (assuming the Over-allotment Option is not exercised):

- Approximately HK\$273.3 million, or 85% of the total estimated net proceeds, is expected to be used for expanding our market share in the PRC water industry and diversifying our project portfolio and creating synergies;
- Approximately HK\$32.2 million, or 10% of the total estimated net proceeds, is expected to be used for enhancing our core technologies through innovative research and development initiatives and acquisitions of advanced technologies;
- Approximately HK\$16.1 million, or 5% of the total estimated net proceeds, is expected to be used for working capital and other general corporate purposes.

We will adjust our allocation of the net proceeds for the above purposes on a pro rata basis should the amount of the proceeds differ from the estimated amount, assuming the Over-allotment Option is not exercised. If the Offer Price is set at HK\$4.35 per Share (being the high end of the Offer Price range), and assuming that the Over-allotment Option is not exercised, the net proceeds from the Global Offering will increase by approximately HK\$69.3 million. If the Offer Price is set at HK\$2.99 per Share (being the low end of the Offer Price range), and assuming that the Over-allotment Option is not exercised, the net proceeds from the Global Offering will decrease by approximately HK\$69.3 million.

Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purposes on a pro rata basis in the event that the Over-allotment Option is exercised.

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## FUTURE PLANS AND USE OF PROCEEDS

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To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, we intend that such proceeds will be placed in short-term deposits with banks or financial institutions in Hong Kong or the PRC.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited

China Everbright Securities (HK) Limited

CEB International Capital Corporation Limited

ABCI Securities Company Limited

CMB International Capital Limited

Shenwan Hongyuan Securities (H.K.) Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### **Hong Kong Public Offering**

#### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on April 22, 2019. Pursuant to the Hong Kong Underwriting Agreement, we are offering 10,398,000 Hong Kong Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and subject to the conditions of this Prospectus, the relevant Application Forms and the Hong Kong Underwriting Agreement.

Subject to the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any additional Shares which may be made available pursuant to the exercise of the Over-allotment Option), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this Prospectus, the relevant Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

#### *Grounds for termination*

The Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled in their sole and absolute discretion by written notice to our Company to terminate the

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## UNDERWRITING

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Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has been a breach of any of the representations, warranties, agreements and undertakings of our Company or CEIL set out in the Hong Kong Underwriting Agreement or there has been a material breach by our Company or CEIL of any of their respective obligations under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, result in a misstatement in, or constitute a material omission from, any of this Prospectus, the Application Forms, the preliminary offering circular in relation to the International Offering and/or in any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (c) any of this Prospectus, the Application Forms, the announcement to be issued in connection with the Hong Kong Public Offering pursuant to the Hong Kong Listing Rules and/or in any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) contains or has been discovered to contain any untrue statement with respect to a fact in any material respect, or omit to state any fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, or that any expression of opinion, intention, expectation or forward looking statement contained in any of this Prospectus, the Application Forms and/or any announcements, issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair, honest and based on reasonable assumptions, when taken as a whole; or
- (d) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of any of the Company or CEIL pursuant to the indemnities under Hong Kong Underwriting Agreement; or
- (e) there shall have been any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group, taken as a whole (the "**Material Adverse Change**"); or
- (f) the Company withdraws this Prospectus (and/or any other documents used in connection with the subscription or sale of any of the Offer Shares pursuant to the Global Offering) or the Global Offering; or

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## UNDERWRITING

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- (g) there has come to the notice of the Joint Representatives any non-compliance of this Prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Offer Shares) or any aspect of the Global Offering with the Hong Kong Listing Rules or any other applicable law; or
- (h) any prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or
- (i) a contravention by any member of the Group or CEIL of the Hong Kong Listing Rules, the Singapore Listing Manual, or any other applicable laws; or
- (j) non-compliance of this Prospectus or any aspect of the Global Offering with the Hong Kong Listing Rules, the Singapore Listing Manual or any other applicable laws; or
- (k) except with the prior consent of the Joint Representatives, the Company is required to produce or issue a supplement or amendment to this Prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Hong Kong Listing Rules or the Singapore Listing Manual or any requirement or request of the Hong Kong Stock Exchange and/or the SFC and/or the SGX-ST in circumstances where the matter to be disclosed is, in the sole opinion of the Joint Representatives, adversely affecting the marketing for or implementation of the Global Offering; or
- (l) approval by the Listing Committee and/or the SGX-ST of the listing of, and permission to deal in, the Offer Shares to be issued or sold under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (m) any expert, whose consent is required for the issue of this Prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its respective consent (other than the withdrawal of consent by the Joint Sponsors without a reason) prior to the issue of this Prospectus; or
- (n) there shall have developed, occurred, happened or come into effect:
  - (i) any change or development involving a prospective change, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, military, industrial, fiscal, regulatory, taxation, exchange control, currency (including exchange rates or foreign investment regulations) or market conditions or equity securities or stock or other financial market conditions

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## UNDERWRITING

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or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Bermuda, the British Virgin Islands, Hong Kong, the United States, the United Kingdom, Japan, the PRC, Singapore or the European Union or any member thereof (each a “**Relevant Jurisdiction**”); or

- (ii) any new law or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (iii) any imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by or for, any of the Relevant Jurisdictions; or
- (iv) any event or series of events, in the nature of force majeure affecting any Relevant Jurisdiction including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, volcanic eruptions, earthquake, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike, or lock-out (whether or not covered by insurance); or
- (v) (A) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the NASDAQ Global Market, the Tokyo Stock Exchange, the Singapore Stock Exchange or the London Stock Exchange or (B) any major disruption of any securities or monetary settlement or clearing services in any Relevant Jurisdiction; or (C) any general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities; or
- (vi) there is an order or petition for the winding up of any member of the Group with substantive business operations or any composition or arrangement made by any such member of the Group with its creditors or a scheme of arrangement entered into by any such member of the Group or any resolution for the winding up of any such member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any such member of the Group or anything analogous thereto occurring in respect of any such member of the Group; or
- (vii) any legal action, claim, investigation, and legal proceeding, from time to time instituted, made or brought or threatened or otherwise involve (together the

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## UNDERWRITING

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“**Actions**”) any third party being threatened or instigated against any member of the Group or CEIL; or

- (viii) a valid demand by any creditor for repayment or payment of any indebtedness for which any member of the Group is liable prior to its stated maturity; or
- (ix) any contravention by any member of the Group or CEIL of the Hong Kong Listing Rules, the Singapore Listing Manual, or applicable laws; or
- (x) a materialization of any of the risks set out in the section headed “**Risk Factors**” in this Prospectus; or
- (xi) any Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xii) any authority in any Relevant Jurisdiction commencing any Action, or announcing an intention to take any Action, against any Director,

which, individually or in the aggregate, in the sole opinion of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) (A) is or will be, or may result in a Material Adverse Change, or any development involving a prospective Material Adverse Change; or (B) has or is likely to have or will have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of the Offer Shares; or (C) makes it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering, and/or the International Offering on the terms and in the manner contemplated in the Offering Documents; or (D) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

### **Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules**

#### *By our Company*

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (the “**First Six-Month Period**”) (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option), or any of the circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules.

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## UNDERWRITING

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### *By our Controlling Shareholder*

Pursuant to Rule 10.07(1) of the Hong Kong Listing Rules, the Controlling Shareholder has undertaken to the Hong Kong Stock Exchange, the Joint Sponsors and the Company that, except in compliance with the requirements of the Hong Kong Listing Rules or pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) or the Stock Borrowing Agreement, it shall not and shall procure that the relevant registered holder(s) shall not, without the prior written consent of the Hong Kong Stock Exchange:

- (a) in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this Prospectus and ending on the expiration date of the First Six-Month Period, either directly or indirectly, dispose of, enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of those Shares or securities of our Company in respect of which it is shown by this Prospectus to be the beneficial owner (the “**Relevant Securities**”) (save for a charge or a pledge of any Relevant Securities as security in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan); and
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), either directly or indirectly, dispose of, enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities (save for a charge or a pledge of any Relevant Securities as security in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan), if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be our controlling shareholder (as defined in the Hong Kong Listing Rules).

Pursuant to Note (3) to Rule 10.07(2) of the Hong Kong Listing Rules, the Controlling Shareholder has also undertaken to the Hong Kong Stock Exchange, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Lead Managers, the Joint Bookrunners, the Hong Kong Underwriters and us that, within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this Prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any Relevant Securities in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan in accordance with Note (2) to Rule 10.07 of the Hong Kong Listing Rules, immediately inform us and the Joint Representatives in writing of such pledge or charge together with the number of Relevant Securities so pledged or charged; and
- (b) when it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform the Joint Representatives and us in writing of such indications.



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## UNDERWRITING

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We will inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by the Controlling Shareholder and disclose such matters by way of an announcement published in accordance with Rule 2.07C of the Hong Kong Listing Rules as soon as possible after being so informed by the Controlling Shareholder.

### **Undertakings to the Hong Kong Underwriters**

Pursuant to the Hong Kong Underwriting Agreement, the Company and the Controlling Shareholder have undertaken as follows.

#### *Undertakings by our Company*

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-Allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the expiry of six months from the Listing Date (the “**First Six-Month Period**”), the Company undertakes to each of the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Joint Sponsors not to, without the prior written consent of the Joint Representatives (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind (the “**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or

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## UNDERWRITING

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- (d) agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other equity securities of the Company, or in cash or otherwise (whether or not the issue of the Shares or such other securities will be completed within the First Six-month Period). In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-Month Period**”), the Company enters into any of the transactions specified in (a), (b) or (c) above or agrees to or publicly announces any intention to effect any such transaction, the Company undertakes to take all reasonable steps to ensure that such transaction will not create a disorderly or false market in the Shares of the Company.

### *Undertakings by our Controlling Shareholder*

The Controlling Shareholder undertakes to each of the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Joint Sponsors that, without the prior written consent of the Joint Representatives (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules or pursuant to the Global Offering or the Over-allotment Option:

- (a) save for the lending of Shares by CEWHL pursuant to the Stock Borrowing Agreement, it will not, and will procure that none of its subsidiaries or companies controlled by it or any nominee or trustee holding in trust for it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company with a depository in connection with the issue of depository receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares, any other equity securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) agree to or publicly announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or any other equity securities of the Company, or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

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## UNDERWRITING

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- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (a)(i), (ii) or (iii) above or agree to or publicly announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Hong Kong Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in (a)(i), (ii) or (iii) above or agrees to or publicly announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares of the Company.

### **Indemnity**

We have agreed to indemnify each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement or any breach by us of the Hong Kong Underwriting Agreement.

### **The International Offering**

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters would severally but not jointly or jointly and severally agree to procure purchasers for or failing which to purchase, the International Offer Shares. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

### **Over-allotment Option**

Under the International Underwriting Agreement, our Company is expected to grant to the International Underwriters, exercisable by the Joint Representatives on behalf of the International Underwriters, the Over-allotment Option, exercisable within 30 days from the last day for lodging applications under the Hong Kong Public Offering (the last day for exercise of the Over-allotment Option being May 29, 2019) to require us to allot and issue up to 15,595,000 additional Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any.

### **Stabilization**

In connection with the Global Offering, the Stabilizing Manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate Shares or

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## UNDERWRITING

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effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Please refer to the sections entitled “Structure of the Global Offering — Over-Allotment and Stabilization” and “Structure of the Global Offering — Stock Borrowing Agreement” in this Prospectus for details regarding stabilization, over-allocation and stock borrowing arrangements in connection with the Global Offering.

### **Underwriting Commission and Expenses**

The Hong Kong Underwriters will receive an underwriting commission of 1.5% on the aggregate Offer Price of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering out of which they will pay any sub-underwriting commission. The International Underwriters will receive an underwriting commission of 1.5% on the aggregate Offer Price of the International Offer Shares offered under the International Offering out of which they will pay any sub-underwriting commission. In addition, we may pay to the Joint Representatives (for their account only) a discretionary incentive fee.

For any unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate commissions and fees, together with listing fees, SFC transaction levy and Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$60.0 million (assuming an Offer Price of HK\$3.67, being the mid-point of the indicative offer price range and assuming that the Over-allotment Option is not exercised) in total and are payable by us.

### **Stamp Taxes**

Buyers of Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

### **Hong Kong Underwriters’ Interests in our Company**

Save for their respective obligations under the Hong Kong Underwriting Agreement and as disclosed in this Prospectus, the Hong Kong Underwriters have no shareholding interests in our Company or any other member of our Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any other member of our Group.

Following completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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### Joint Sponsors' Independence

China International Capital Corporation Hong Kong Securities Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Hong Kong Listing Rules.

China Everbright Capital Limited is a connected person of our Company under the Hong Kong Listing Rules. It is not an independent sponsor according to the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Hong Kong Listing Rules.

### ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering — Over-Allotment and Stabilization” in this Prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

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## UNDERWRITING

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It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or its affiliates or any person acting for them) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering comprises (assuming the Over-allotment Option is not exercised):

- the Hong Kong Public Offering of initially 10,398,000 Shares (subject to adjustment as mentioned below) (representing 10% of the initial total number of Offer Shares) in Hong Kong as described in the subsection headed “The Hong Kong Public Offering” of this section; and
- the International Offering of initially 93,572,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) (representing 90% of the initial total number of Offer Shares) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for Hong Kong Public Offer Shares under the Hong Kong Public Offering or apply for, or indicate an interest in, International Offer Shares under the International Offering, but may not do both.

China International Capital Corporation Hong Kong Securities Limited and China Everbright Securities (HK) Limited are the Joint Representatives. China International Capital Corporation Hong Kong Securities Limited, China Everbright Securities (HK) Limited and CEB International Capital Corporation Limited are the Joint Global Coordinators. China International Capital Corporation Hong Kong Securities Limited, China Everbright Securities (HK) Limited, CEB International Capital Corporation Limited, ABCI Capital Limited, CMB International Capital Limited and Shenwan Hongyuan Securities (H.K.) Limited are the Joint Bookrunners. China International Capital Corporation Hong Kong Securities Limited, China Everbright Securities (HK) Limited, CEB International Capital Corporation Limited, ABCI Securities Company Limited, CMB International Capital Limited and Shenwan Hongyuan Securities (H.K.) Limited are the Joint Lead Managers.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation and, in the case of the International Offering only, the Over-allotment Option as described below in the subsection headed “Over-Allotment and Stabilization” of this section.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Representatives (on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed “Underwriting”.

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## STRUCTURE OF THE GLOBAL OFFERING

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### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Global Offering will be conditional on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering (including any Shares which may be made available pursuant to the exercise of the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event no later than the date which is 30 days after the date of this Prospectus.

**If, for any reason, the Offer Price is not agreed on or before Monday, April 29, 2019 between our Company and the Joint Representatives (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.**

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming and remaining unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse, and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Public Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

**Share certificates for the Offer Shares will only become valid certificates of title at 8:00 am on Wednesday, May 8, 2019 provided that (i) the Global Offering has become unconditional in all**



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## STRUCTURE OF THE GLOBAL OFFERING

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respects, and (ii) the right of termination as described in the section headed “Underwriting — Hong Kong Public Offering — Grounds for termination” has not been exercised.

### THE HONG KONG PUBLIC OFFERING

#### Number of Shares Initially Offered

Under the Hong Kong Public Offering, our Company is initially offering 10,398,000 Shares at the Offer Price for subscription by the public in Hong Kong, representing 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the Hong Kong Public Offer Shares will represent approximately 0.4% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involve dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection headed “Conditions of the Global Offering” of this section.

#### Allocation

Allocation of Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B.

The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for the Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants can receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than 5,199,000 Hong Kong Public Offer Shares (being 50% of the 10,398,000 Hong Kong Public Offer Shares initially comprised in the Hong Kong Public Offering) are liable to be rejected.

### **Reallocation**

The allocation of the Offer Shares between the International Offering and the Hong Kong Public Offering is subject to adjustment on the following basis:

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 31,192,000 Shares, representing 30% of the Offer Shares initially available for subscription under the Global Offering;
- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 41,588,000 Shares, representing 40% of the Offer Shares initially available for subscription under the Global Offering; and
- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares

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## STRUCTURE OF THE GLOBAL OFFERING

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will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 51,986,000 Shares, representing 50% of the Offer Shares initially available for subscription under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives. The Joint Representatives may in its discretion reallocate the Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed, the Joint Representatives may also in its discretion reallocate to the International Offering all or any Hong Kong Offer Shares which are not subscribed.

In the event of reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering in the circumstances where (a) the International Offering shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed by less than 15 times, or (b) the International Offering Shares are undersubscribed and the Hong Kong Public Offer Shares are fully subscribed or oversubscribed, then up to 10,398,000 Offer Shares may be reallocated from the International Offering to the Hong Kong Public Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will increase up to 20,796,000 Shares, representing approximately 20% of the number of the Offer shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and the Offer Price shall be fixed at HK\$2.99 per Offer Share (being the low-end of the indicative Offer Price range stated in this prospectus) in accordance with Guidance Letter HKEx-GL91-18.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she, and any person(s) for whose benefit he or she is making the application, have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he or she has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$4.35 per Hong Kong Public Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Hong Kong Public Offer

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## STRUCTURE OF THE GLOBAL OFFERING

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Share. If the Offer Price, as finally determined in the manner described in the subsection headed “—Pricing of the Global Offering” of this section below, is less than the maximum price of HK\$4.35 per Hong Kong Public Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in “How to Apply for Hong Kong Public Offer Shares”.

References in this Prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### THE INTERNATIONAL OFFERING

#### Number of Shares offered

Subject to reallocation as described above, the International Offering will consist of 93,572,000 Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering, assuming that the Over-allotment Option is not exercised. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares initially offered under the International Offering will represent approximately 3.4% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

#### Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing of the Global Offering” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit, of our Company and our Shareholders as a whole.

The Joint Representatives (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Over-allotment Option

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Representatives (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Joint Representatives have the right, exercisable at any time, from the day on which trading of the Shares commences on the Hong Kong Stock Exchange until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue up to 15,595,000 additional Shares, representing in aggregate approximately 15.0% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Shares will represent approximately 0.6% of our enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a public announcement will be made.

### PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Monday, April 29, 2019, and in any event on or before Monday, April 29, 2019, by agreement between the Joint Representatives (on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$4.35 per Offer Share and is expected to be not less than HK\$2.99 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus.**

The Joint Representatives (on behalf of the Underwriters), may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the

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## STRUCTURE OF THE GLOBAL OFFERING

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Hong Kong Public Offering. In such case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.ebwater.com](http://www.ebwater.com), an announcement, or a supplemental prospectus (as appropriate), in connection with such reduction. Upon issue of such an announcement or supplemental prospectus (as appropriate), the revised number of Offer Shares and/or indicative Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Representatives (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. **Applicants should have regard to the possibility that any announcement or supplemental prospectus (as appropriate) in connection with any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day that is the last day for lodging applications under the Hong Kong Public Offering.** Such announcement or supplemental prospectus (as appropriate) will also include confirmation or revision, as appropriate, of the working capital statement, the use of proceeds and the Global Offering statistics as currently set out in this Prospectus and any other financial information which may change as a result of such reduction. If the number of Offer Shares and/or the indicative Offer Price range is so reduced, applicant(s) who have already submitted an application may or may not (depending on the information contained in the announcement or supplemental prospectus (as appropriate)) be notified that they are required to confirm their applications. All applicant(s) who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement or supplemental prospectus (as appropriate) and all unconfirmed applications will not be valid. In the absence of any such notice or supplemental prospectus (as appropriate) published in relation to the reduction in the Offer Price, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by our Company and the Joint Representatives (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting fees, SFC transaction levy and the Hong Kong Stock Exchange trading fees in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$252.3 million, assuming an Offer Price per Offer Share of HK\$2.99, or approximately HK\$390.8 million, assuming an Offer Price per Offer Share of HK\$4.35.

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Hong Kong Public Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Tuesday, May 7, 2019 in the manner set out in the paragraph “How to Apply for Hong Kong Public Offer Shares — 10. Publication of results” in this Prospectus.

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## STRUCTURE OF THE GLOBAL OFFERING

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### OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. It may be effected in jurisdictions where it is permissible to do so and subject to all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

China International Capital Corporation Hong Kong Securities Limited has been appointed by us as the Stabilizing Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in amounts not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Offer Shares or purchasing Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may purchase additional Offer Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares while the Global Offering is in progress. Any market purchases of our Offer Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, or any person acting for it to conduct any such stabilizing action. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilization Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares which may be made available upon exercise of the Over-allotment Option, being up to 15,595,000 Shares, which is in aggregate approximately 15.0% of the Shares initially available under the Global Offering.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares;

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## STRUCTURE OF THE GLOBAL OFFERING

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- (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above;
- (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (v) selling, or agreeing to sell, any of our Shares in order to liquidate any position established as a result of those purchases; and
- (vi) offering or attempting to do anything as described in paragraphs (ii), (iii), (iv) or (v) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager or any person acting for it, which may include a decline in the market price of the Shares.

Stabilization cannot be used to support the price of the Shares for longer than the stabilization period, which begins on the day on which trading of the Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for lodging of applications under the Hong Kong Public Offering. The stabilization period is expected to expire on May 29, 2019. As a result, demand for the Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Stabilizing Manager or any person acting for it may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.



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## STRUCTURE OF THE GLOBAL OFFERING

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### STOCK BORROWING AGREEMENT

For the purpose of covering any over-allocations, the Stabilizing Manager may borrow from CEWHL up to 15,595,000 Shares, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement expected to be entered into between the Stabilizing Manager and CEWHL. The loan of Shares CEWHL pursuant to the Stock Borrowing Agreement shall not be subject to the restrictions under Rule 10.07(1)(a) of the Hong Kong Listing Rules, which restricts the disposal of Shares by CEIL subsequent to the date of this Prospectus, subject to compliance with the following requirements in accordance with the requirements of Rule 10.07(3) of the Hong Kong Listing Rules:

- (i) the Stock Borrowing Agreement is fully described in the Prospectus and will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering;
- (ii) the maximum number of Shares which may be borrowed from CEWHL must not exceed the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- (iii) the same number of Shares so borrowed must be returned to CEWHL or its nominees, as the case may be, on or before the third Business Day following the earlier of (a) the last day for exercising the Over-allotment Option, and (b) the date on which the Over-allotment Option is exercised in full;
- (iv) the borrowing of Shares pursuant to the Stock Borrowing Arrangement will be effected in compliance with all applicable Hong Kong Listing Rules, laws and other regulatory requirements; and
- (v) no payment will be made to CEWHL by the Stabilizing Manager in relation to such Stock Borrowing Agreement.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, May 8, 2019, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, May 8, 2019.

The Shares will be traded in board lots of 1,000 Shares each.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for, or indicate an interest for, International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Representatives, and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a corporate body, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Representatives may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Hong Kong Listing Rules) of any of the above;
- a connected person (as defined in the Hong Kong Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 am on Wednesday, April 24, 2019 until 12:00 noon on Monday, April 29, 2019:

- (i) the following office of the Joint Bookrunners:

<u>Joint Bookrunners</u>	<u>Address</u>
China International Capital Corporation Hong Kong Securities Limited	29/F One International Finance Centre 1 Harbour View Street Central Hong Kong
China Everbright Securities (HK) Limited	24/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
CEB International Capital Corporation Limited	22/F, AIA Central 1 Connaught Road Central, Central Hong Kong
ABCI Capital Limited	11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
CMB International Capital Limited	45F, Champion Tower 3 Garden Road Central Hong Kong
Shenwan Hongyuan Securities (H.K.) Limited	Level 19, 28 Hennessy Road Hong Kong

- (ii) any of the following branches of the receiving bank(s):

**(1) Bank of China (Hong Kong) Limited**

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
<b>Hong Kong Island</b>	Bank of China Tower Branch	1 Garden Road
	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
<b>Kowloon</b>	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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<u>District</u>	<u>Branch Name</u>	<u>Address</u>
<b>New Territories</b>	Texaco Road Branch	Shop A112, East Asia Gardens, 36 Texaco Road, Tsuen Wan
	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long
	City One Sha Tin Branch	Shop Nos. 24-25, G/F, Fortune City One Plus, No.2 Ngan Shing Street, Sha Tin

### (2) CMB Wing Lung Bank Limited

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
<b>Hong Kong Island</b>	Head Office	45 Des Voeux Road Central
	Aberdeen Branch	201 Aberdeen Main Road
	Kennedy Town Branch	28 Catchick Street
<b>Kowloon</b>	Prince Edward Branch	17 Lai Chi Kok Road
	Mongkok Branch	B/F CMB Wing Lung Bank Centre, 636 Nathan Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours, from 9:00 am on Wednesday, April 24, 2019 until 12:00 noon, on Monday, April 29, 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — CHINA EVERBRIGHT WATER PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Wednesday, April 24, 2019 — 9:00 a.m. to 5:00 p.m.
- Thursday, April 25, 2019 — 9:00 a.m. to 5:00 p.m.
- Friday, April 26, 2019 — 9:00 a.m. to 5:00 p.m.
- Saturday, April 27, 2019 — 9:00 a.m. to 1:00 p.m.
- Monday, April 29, 2019 — 9:00 a.m. to 12:00 noon.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, April 29, 2019, the last application day or such later time as described in the subsection headed “— 9. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Representatives (or their agents or nominees), as agents of the Company, to execute any documents for you, and to do on your behalf all things necessary, to register any Hong Kong Public Offer Shares allocated to you in your name, or in the name of HKSCC Nominees as required by our Bye-laws;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and our Bye-laws;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this Prospectus;
- (vi) agree that none of the Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is, or will be liable for, any information and representations not in this Prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, the receiving bank, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) agree and warrant that, if the laws of any place outside Hong Kong apply to your application, you have complied with all such laws and none of the Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S);
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made, and the only application intended by you to be made, to benefit you or the person for whose benefit you are applying;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (xvii) understand that the Company and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) warrant (if the application is made for your own benefit) that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (xix) warrant (if you are making the application as an agent for the benefit of another person) that (i) no other application has been or will be made, by you as agent for or for the benefit of that person or by that person, or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the Yellow Application Form for details.

## **5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).



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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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HKSCC can also input electronic application instructions for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service Center  
1/F, One & Two Exchange Square,  
8 Connaught Place,  
Central,  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Representatives and our Hong Kong Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this Prospectus and have relied only on the information and representations in this Prospectus in causing the application to be made, save as set out in any supplement to this Prospectus;
- agree that none of the Company, the Joint Representatives, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving bank, the Joint Representatives, the Underwriters and/or their respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day that is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day that is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and our Bye-laws; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (or, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things, for which neither HKSCC or HKSCC Nominees shall be liable to our Company or any other person:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Public Offer Shares. Instructions for more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:<sup>(1)</sup>

- Wednesday, April 24, 2019 — 9:00 a.m. to 8:30 p.m.
- Thursday, April 25, 2019 — 8:00 a.m. to 8:30 p.m.
- Friday, April 26, 2019 — 8:00 a.m. to 8:30 p.m.
- Monday, April 29, 2019 — 8:00 am to 12 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, April 24, 2019 until 12:00 noon on Monday, April 29, 2019 (24 hours daily, except on Monday, April 29, 2019, the last application day).

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*Note: (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.*

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, April 29, 2019, the last application day or such later time as described in the subsection headed “— 9. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications, or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Representatives, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System CCASS

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, April 29, 2019.

### 7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 8. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see the section headed “Structure of the Global Offering — Pricing of the Global Offering”.

### 9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, April 29, 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, April 29, 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Tuesday, May 7, 2019 in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on our Company's website at [www.ebwater.com](http://www.ebwater.com) and the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.ebwater.com](http://www.ebwater.com) and the Hong Kong Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Tuesday, May 7, 2019;
- from the designated results of allocations website at [www.ewhiteform.com.hk/results](http://www.ewhiteform.com.hk/results) with a "search by ID" function on a 24-hour basis from 9:00 a.m. on Tuesday, May 7, 2019 to 12:00 midnight on Tuesday, May 14, 2019;
- by telephone enquiry line by calling +852 2153 1688 between 9:00 am and 6.00 pm from Tuesday, May 7, 2019 to Tuesday, May 14, 2019 (excluding Saturday, Sunday and Public holiday in Hong Kong);
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, May 7, 2019 to Thursday, May 9, 2019 at the receiving banks' designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.



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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application, or the application made by HKSCC Nominees on your behalf, cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application, or the application made by HKSCC Nominees on your behalf, may only be revoked on or before such fifth day if a person responsible for this Prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus.

If any supplement to this Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified, but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application, or the application made by HKSCC Nominees on your behalf, has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Joint Representatives, and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

### 12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$4.35 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering" in this Prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, May 7, 2019.

### 13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheque and share certificates are expected to be posted on or before Tuesday, May 7, 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, May 8, 2019 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this Prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### **(i) *If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, May 7, 2019, or such other date as notified by us in the newspapers.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, May 7, 2019, by ordinary post and at your own risk.

**(ii) *If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, May 7, 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, May 7, 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

***If you apply through a designated CCASS participant (other than a CCASS investor participant)***

For Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

***If you are applying as a CCASS investor participant***

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— 10. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., on Tuesday, May 7, 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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(iii) *If you apply via Electronic Application Instructions to HKSCC*

### *Allocation of Hong Kong Public Offer Shares*

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or, each person for whose benefit instructions are given, will be treated as an applicant.

### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, May 7, 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, May 7, 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, May 7, 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, May 7, 2019. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, May 7, 2019.

### 14. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement, as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

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## LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

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### LISTINGS

The Company currently has a primary listing of Shares on the SGX-ST, which it intends to maintain alongside its proposed dual primary listing of Shares on the Hong Kong Stock Exchange. An application has been made to the Listing Committee of the SEHK for, amongst other things, the listing of, and permission to deal in, (i) the Shares in issue and listed on the Main Board of the SGX-ST and; (ii) the Offer Shares to be issued pursuant to the Global Offering.

### REGISTRATION

The Bermuda Principal Register is maintained in Bermuda by Conyers Corporate Services (Bermuda) Limited. The Company has established the Hong Kong Share Register ("**Hong Kong Share Register**"), being a branch register of members in Hong Kong which is maintained by Boardroom Share Registrars (HK) Limited whose address is 2103B, 21F, 148 Electric Road, North Point, Hong Kong. Further, the Company has established a branch register of members in Singapore ("**Singapore Share Register**") which is maintained by the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte Ltd whose address is 50 Raffles Place #32-01 Singapore Land Tower, Singapore 048623.

The transfer agent for members of the Company in Singapore is Boardroom Corporate & Advisory Service Pte. Ltd. whose address is 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623. Certificates in respect of the Shares registered on the Hong Kong Share Register will, as far as practicable, and unless otherwise requested, be issued in board lots of 1,000 Shares. The Bermuda Principal Registrar will keep in Bermuda duplicates of the Hong Kong Share Register and the Singapore Share Register, which will be updated from time to time.

### CERTIFICATES

Only certificates for Shares issued by the Hong Kong Share Registrar will be valid for delivery in respect of dealings effected on the Hong Kong Stock Exchange. Only certificates for Shares issued by the Singapore Share Transfer Agent on behalf of the Company will be valid for delivery in respect of dealings effected on the SGX-ST. For ease of identification, the certificates for Shares issued by the Singapore Share Transfer Agent are blue in color. The certificates for Shares issued by the Hong Kong Share Registrar will be yellow in color.

### DEALINGS

Dealings in Shares on the Hong Kong Stock Exchange and SGX-ST will be conducted in Hong Kong dollars and Singapore dollars respectively. The Shares are traded on SGX-ST in board lots of 100 Shares and will be traded on the Hong Kong Stock Exchange in board lots of 1,000 Shares.

The transaction costs of dealings in the Shares on the Hong Kong Stock Exchange include a Stock Exchange trading fee of 0.005 per cent., an SFC transaction levy of 0.0027 per cent., a fixed stamp

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## LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

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duty of HK\$5.00 per transfer instrument and ad valorem stamp duty on both the buyer and the seller charged at the rate of 0.1% each of the consideration or, if higher, the fair value of the Shares transferred. The brokerage commission in respect of trades of Shares on the Hong Kong Stock Exchange is freely negotiable.

The brokerage commission in respect of trades of Shares on the SGX-ST is freely negotiable.

A clearing fee in Singapore is payable at the rate of 0.0325% and trading fee is payable at the rate of 0.0075 per cent. of the transaction value. The clearing fee and the trading fee are subject to goods and services tax in Singapore (currently at seven per cent.).

### SETTLEMENT

#### Settlement of dealings in Singapore

Shares listed and traded on the SGX-ST are trading under the book-entry settlement system of CDP and all dealings in and transactions of Shares through the SGX-ST are effected in accordance with the terms and conditions for the operation of securities accounts with CDP, as amended from time to time.

CDP, a wholly-owned subsidiary of the SGX-ST, is incorporated under the laws of Singapore and acts as a depository and clearing organization. CDP holds securities for its accountholders and facilitates the clearance and settlement of securities transactions between accountholders through electronic book-entry changes in the securities accounts maintained by such accountholders with CDP.

Shares will be registered in the name of CDP or its nominees and held by CDP for and on behalf of the persons who maintain, either directly or through depository agents, securities accounts with CDP. The Bermuda Companies Act, the Memorandum of Association and the Bye-laws of the Company only recognize the registered owners or holders of the Shares as members. CDP depositors and depository agents on whose behalf CDP holds Shares, may not be accorded the full rights of membership, such as voting rights, the right to appoint proxies, or the right to receive Shareholders' circulars, proxy forms, annual reports, prospectuses and take over documents. CDP depositors and depository agents will be accorded only such rights as CDP may make available to them pursuant to CDP's terms and conditions to act as depository for foreign securities.

Persons holding our Shares in a securities account with CDP may withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificates. Such share certificates will not, however, be valid for delivery pursuant to trades transacted on the SGX-ST, although they will be prima facie evidence of title and may be transferred in accordance with our Memorandum of Association and our Bye-laws. A fee of S\$10.00 for each withdrawal of 1,000 Shares or less and a fee of S\$25.00 for each withdrawal of more than 1,000 Shares will be payable upon withdrawing the Shares from the book-entry settlement system and obtaining physical share



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## LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

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certificates. In addition, a fee of S\$2.00 (or such other amounts as the Directors may decide) will be payable to Singapore Share Transfer Agent for each share certificate issued. Persons holding physical share certificates who wish to trade on the SGX-ST must deposit with CDP their share certificates together with the duly executed instruments of transfer in favor of CDP, and have their respective securities accounts credited with the number of Shares deposited before they can effect the desired trades. A fee of S\$10.00 is payable upon the deposit of each instrument of transfer with CDP.

Transactions in our Shares under the book-entry settlement system will be reflected by the seller's securities account being debited with the number of Shares sold and the buyer's securities account being credited with the number of Shares acquired. No transfer stamp duty is currently payable for the transfer of the Shares that are settled on a book-entry basis.

A clearing fee for Shares traded on the SGX-ST is payable at the rate of 0.0325 per cent. and a trading fee is payable at the rate of 0.0075 per cent. of the transaction value. The clearing fee, trading fee, instrument of transfer, deposit fees and share withdrawal fee are subject to Singapore goods and services tax of 7.0 per cent.

Dealings in our Shares will be carried out in Singapore dollars and will be effected for settlement in CDP on a scripless basis. Settlement of trades on a normal "ready" basis on the SGX-ST generally takes place on the third market day following the transaction date, and payment for the securities is generally settled on the following day. CDP holds securities on behalf of investors in securities accounts. An investor may open a direct securities account with CDP or a securities sub-account with a depository agent. A depository agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

### **Settlement of dealings in Hong Kong**

Investors in Hong Kong must settle their trades executed on the Hong Kong Stock Exchange through their brokers directly or through custodians. For an investor in Hong Kong who has deposited his Shares in his stock account or in his designated CCASS Participant's stock account maintained with CCASS, settlement will be effected in CCASS in accordance with the CCASS Rules. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his broker or custodian before the settlement date.

An investor may arrange with his broker or custodian on a settlement date in respect of his trades executed on the Hong Kong Stock Exchange. Under the Hong Kong Listing Rules and the CCASS Rules, the date of settlement must not be later than the second business day following the trade date on which the settlement services of CCASS are open for use by CCASS Participants (T+2). For trades settled under CCASS, the CCASS Rules provide that a defaulting broker may be compelled to compulsorily buy-in by HKSCC the day after the date of settlement (T+3), or if it is not practicable to do so on T+3, at any time thereafter. HKSCC may also impose fines from T+2 onwards.

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## LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

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The CCASS stock settlement fee payable by each counterparty to the Hong Kong Stock Exchange trade is currently 0.002 per cent. of the gross transaction value subject to a minimum fee of HK\$2 and a maximum fee of HK\$100 per trade.

### **Dividends**

Dividends are declared in Singapore Dollars and will be converted into Hong Kong dollars before being paid to the Shareholders (whose Shares are traded on the Hong Kong Stock Exchange).

### **Foreign Exchange Risk**

Investors in Singapore who trade in the Shares on the SGX-ST should note that their trades will be effected in Singapore dollars. Investors in Hong Kong who trade in the Shares on the Hong Kong Stock Exchange should note that their trades will be effected in Hong Kong dollars. Accordingly, investors should be aware of the foreign exchange risks associated with such trading.

### **Transfer of Shares**

All duties, fees and expenses specified herein are subject to changes from time to time.

Currently, all of our Shares are registered on the Singapore Share Register. For the purpose of trading on the Hong Kong Stock Exchange following the Hong Kong Stock Exchange Listing, the Shares to be traded on the Hong Kong Stock Exchange must be registered on the Hong Kong Share Register. Shares may be transferred between the Singapore Share Register and the Hong Kong Share Register. An investor who wishes to trade our Shares on the SGX-ST must have the Share registered on the Singapore Share Register in the name of CDP and must deposit the share certificates in respect of such Shares with CDP. An investor who wishes to trade our Shares on the Hong Kong Stock Exchange following the Hong Kong Stock Exchange Listing must have his Shares registered on the Hong Kong Share Register by removing them from the Singapore Share Register to the Hong Kong Share Register. Withdrawal fees payable will be borne by the relevant Shareholders together with any other costs to be levied by such Shareholders' own brokers, nominees or custodians. A resolution has been passed by our Directors authorizing the removal of Shares between the Singapore Share Register and the Hong Kong Share Register as may from time to time be requested by the members of the Company.

### **From the SGX-ST to the Hong Kong Stock Exchange**

Following the Hong Kong Stock Exchange Listing, if an investor whose Shares are traded on the SGX-ST wishes to trade his Shares on the Hong Kong Stock Exchange, he must effect a removal of Shares from the Singapore Share Register to the Hong Kong Share Register.

A removal of our Shares from the Singapore Share Register to the Hong Kong Share Register involves the following procedures:

1. If the investor's Shares have been deposited with CDP, the investor must first withdraw his Shares from CDP by submitting to CDP (i) a Withdrawal of Securities Form available

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## LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

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from CDP; (ii) an instrument of transfer; and (iii) a bank draft for the amount as prescribed by CDP from time to time.

2. The investor must complete a share removal form and delivery instructions form (the “**SG Removal Request Form**”) available from the Singapore Share Transfer Agent and submit the SG Removal Request Form (in triplicate), together with the bank drafts for the amount as prescribed by the Singapore Share Transfer Agent and the Hong Kong Share Registrar from time to time to the Singapore Share Transfer Agent.
3. CDP will then send the duly completed transfer form together with the relevant share certificate(s) registered under the name of CDP to the Singapore Share Transfer Agent directly.
4. Upon receipt of the duly completed instrument of transfer and share certificate(s) from CDP and the SG Removal Request Form (in triplicate) together with the bank drafts for the amount as prescribed by the Singapore Share Transfer Agent and the Hong Kong Share Registrar from time to time, the Singapore Share Transfer Agent will remove our Shares from the Singapore Share Register and inform the Hong Kong Share Registrar to enter such Shares in the Hong Kong Share Register.
5. Upon receipt of the notification and documents referred to in paragraph (4) above and where appropriate the relevant payments, the Singapore Share Transfer Agent shall effect the transfer and removal of Shares on the Singapore Share Register and the Hong Kong Share Registrar will update the Hong Kong Share Register and issue share certificate(s) in the name of the investor and send such share certificate(s) to the address specified by the investor. Dispatch of share certificate(s) will be made at the risk and expense of the investor as specified in the SG Removal Request Form.
6. If the investor’s Shares upon being registered in Hong Kong are to be deposited with CCASS, the investor must deposit his Shares into CCASS for crediting to his CCASS Investor Participant stock account or his designated CCASS Participant’s stock account. In order to deposit his Shares into CCASS or to effect the sale of Shares in Hong Kong, the investor should execute an instrument of transfer that is in use in Hong Kong and can be obtained from the office of the Hong Kong Share Registrar and deliver it together with his share certificate(s) issued by the Hong Kong Share Registrar to HKSCC directly if he intends to deposit his Shares into CCASS for crediting to his CCASS Investor Participant stock account or via a CCASS Participant if he wants his Shares to be credited to his designated CCASS Participant’s stock account.

Under normal circumstances, steps (2) to (5) generally require 15 Business Days to complete.

### **From the Hong Kong Stock Exchange to the SGX-ST**

If an investor whose Shares are traded on the Hong Kong Stock Exchange wishes to trade his Shares on the SGX-ST, he must effect a removal of the Shares from the Hong Kong Share Register to

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## LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

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the Singapore Share Register. Such removal and deposit of his Shares would involve the following procedures:

1. If the investor's Shares are registered in the investor's own name, the investor shall complete the combined share removal and transfer and delivery instructions form (the "**HK Removal Request Form**") (in triplicate) and submit the same together with his share certificate(s) in his name and the bank drafts for the amount as prescribed by the Singapore Share Transfer Agent and the Hong Kong Share Registrar from time to time to the Hong Kong Share Registrar. If the investor's Shares have been deposited with CCASS, the investor must first withdraw such Shares from his CCASS Investor Participant stock account with CCASS or from the stock account of his designated CCASS participant and submit the relevant instrument of transfer(s) executed by HKSCC Nominees and the investor, the relevant share certificate(s) and a duly completed HK Removal Request Form (in triplicate) available from the Hong Kong Share Registrar, together with the bank drafts for the amount as prescribed by the Singapore Share Transfer Agent and the Hong Kong Share Registrar from time to time to the Hong Kong Share Registrar.
2. If the investor would like to have our Shares credited directly into his securities account or sub-account with a CDP depository agent, he must indicate it on the HK Removal Request Form with a bank draft for the amount as prescribed by CDP from time to time at the same time he submits the relevant documents to the Hong Kong Share Registrar (as contemplated in paragraph (1) above). The investor should ensure that he has a securities account or sub-account with a CDP depository agent before he can complete and sign off on delivery instruction set out in the HK Removal Request Form.
3. Upon receipt of the HK Removal Request Form (in triplicate), the relevant Share certificate(s), the bank drafts for the amounts as prescribed by the Singapore Share Transfer Agent and the Hong Kong Share Registrar and CDP, if applicable and where appropriate, the completed instrument of transfer(s) executed by HKSCC Nominees and the investor, the Hong Kong Share Registrar will take all actions necessary to effect the transfer and the removal of the investor's Shares from the Hong Kong Share Register to the Singapore Share Register.
4. The Hong Kong Share Registrar will notify the Singapore Share Transfer Agent of the removal whereupon the Singapore Share Transfer Agent will then update the Singapore Share Register. Upon completion, the Singapore Share Transfer Agent will issue the relevant Share certificate(s) in the name of the investor or CDP, where the case may be, and deliver the Share certificate(s) to the investor or CDP.
5. Upon receipt of the relevant documents and prescribed payment from the Singapore Share Transfer Agent, CDP shall credit the specified number of Shares into the investor's securities account or sub-account with a CDP depository agent. The investor should

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## LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

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ensure that the shares are credited to his securities account or sub-account with a CDP depository agent before dealing in our Shares.

Under normal circumstances, steps (1) to (4) generally require 15 Business Days to complete.

### **Cost**

All costs attributable to the removal of Shares from the Hong Kong Share Register to the Singapore Share Register or from the Singapore Share Register to the Hong Kong Share Register will be borne by the investor requesting the removal.

### **Stamp Duty**

Any transfer or dealings of Shares that are registered on the Hong Kong Share Register will be subject to Hong Kong stamp duty, which currently includes a stamp duty of HK\$5.00 per transfer instrument and ad valorem stamp duty on both the buyer and the seller charged at the rate of 0.1 per cent. each of the consideration or, if higher, the fair value of the Shares transferred.

For those Shares which are registered on the Singapore Share Transfer Agent, any transfer thereof or dealings therein will be subject to Singapore stamp duty.

### **Cost of removal and transfer of Shares**

Shareholders should note that the Hong Kong Share Registrar will charge HK\$350 for each removal of Shares from Hong Kong Share Register and a fee of HK\$2.50 (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules) for each Share certificate cancelled or issued by it and any applicable fee as stated in the removal request forms used in Hong Kong or Singapore.

In addition, the Singapore Share Transfer Agent will charge S\$30 (or such other amount as may be prescribed from time to time) for each removal of Shares from Singapore Share Transfer Agent, a fee of S\$2 (plus applicable stamp duties) for each transfer form in respect of transfer of Shares and a fee of S\$2.00 for each share certificate cancelled or issued by it and any applicable fee as stated in the removal request forms used in Hong Kong or Singapore. The fees charged by the Singapore Share Transfer Agent are subject to Singapore goods and services tax (currently at 7 per cent.). A fee of S\$10.00 (including tax) is payable to CDP upon deposit of each instrument of transfer with CDP. A fee of S\$25.00 (inclusive of goods and service tax) is payable to CDP for withdrawal of more than 1,000 Shares, and a fee of S\$10.00 (inclusive of goods and service tax) is payable to CDP for withdrawal of 1,000 Shares or less.

### **Special Arrangements to Facilitate Transfers prior to the Listing**

Special arrangements will be made to facilitate the transfers of Shares prior to the completion of the Listing. In connection with the proposed Listing, the Singapore Share Transfer Agent and the Hong

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## LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

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Kong Share Registrar will provide three batch transfers of Shares traded on the SGX-ST for Shareholders seeking to transfer their Shares to the Hong Kong Share Register prior to the completion of the Listing. The key dates in relation to such batch-transfers exercises (the “**Batch-Transfers**”) are set out below:

<u>Event</u>	<u>First Batch-Transfer</u>	<u>Second Batch-Transfer</u>	<u>Third Batch-Transfer</u>
Final date to submit a request for withdrawal of securities form to CDP and a SG Removal Request Form to the Singapore Share Transfer Agent	April 18, 2019	May 2, 2019	May 7, 2019
Share certificates available for collection from the Hong Kong Share Registrar’s office	May 7, 2019	May 24, 2019	May 29, 2019

Shareholders who hold their Shares directly in CDP can complete and submit the request for withdrawal of securities form to CDP and the SG Removal Request Form to the Singapore Share Transfer Agent before the relevant dates stipulated above to participate in the Batch-Transfers.

Our Company will bear the costs, fees and duties payable for the Batch-Transfers, save that withdrawal fees payable to CDP will be borne by the relevant Shareholders and CDP’s existing charges will still apply, together with any other costs to be levied by such Shareholders’ own brokers, nominees or custodians (where relevant).

Shareholders should note that all costs, fees and duties payable for any subsequent transfer of their Shares, including fees chargeable by the share registrars, CDP and the Shareholders’ own brokers, nominees or custodians (where relevant) will be borne by Shareholders themselves.

Our Company has made arrangements to inform our Shareholders and the Singapore investing public of details of the Listing and the Batch-Transfers procedures by way of announcements on the respective websites of our Company at [www.ebwater.com](http://www.ebwater.com) and the SGX-ST at [www.sgx.com](http://www.sgx.com).

*The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the Company's Reporting Accountants, Ernst & Young, Certified Public Accountants, Hong Kong.*



22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

The Directors  
China Everbright Water Limited

China International Capital Corporation Hong Kong Securities Limited  
China Everbright Capital Limited

Dear Sirs,

We report on the historical financial information of China Everbright Water Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-143, which comprises the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018 (the “Track Record Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2016, 2017 and 2018 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-143 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 24 April 2019 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

#### **Directors’ responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

#### **Reporting accountants’ responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2016, 2017 and 2018 and of the financial performance and cash flows of the Group for each of the Track Record Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

### **Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

### **Adjustments**

The Historical Financial Information is stated after making such adjustments to the Historical Financial Statements as defined on page I-4 as were considered necessary.



**Dividends**

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Periods.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong  
24 April 2019

**I. HISTORICAL FINANCIAL INFORMATION****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on previously issued financial statements of the Group for the years ended 31 December 2017 and 2018 audited by Ernst & Young LLP, Singapore and previously issued financial statements of the Group for the year ended 31 December 2016 audited by KPMG LLP, Singapore in accordance with International Standards on Auditing ("ISAs") issued by the IAASB (the "Historical Financial Statements").

The functional currency of the Company is Renminbi ("RMB"). The Historical Financial Information is presented in Hong Kong dollars, which is the Company's presentation currency, and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

## Consolidated statements of comprehensive income

	Notes	Year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
REVENUE	5	2,494,037	3,591,633	4,768,318
Direct costs and operating expenses		<u>(1,588,385)</u>	<u>(2,361,046)</u>	<u>(3,144,540)</u>
Gross profit		905,652	1,230,587	1,623,778
Other income and gains, net	6	127,666	129,809	140,583
Administrative and other operating expenses		<u>(298,250)</u>	<u>(287,021)</u>	<u>(439,564)</u>
Finance income	7	7,631	12,463	17,918
Finance costs	7	<u>(205,223)</u>	<u>(241,391)</u>	<u>(291,398)</u>
Share of profits of associates		<u>—</u>	<u>158</u>	<u>422</u>
PROFIT BEFORE TAX	8	537,476	844,605	1,051,739
Income tax	11	<u>(164,861)</u>	<u>(263,812)</u>	<u>(314,984)</u>
PROFIT FOR THE YEAR		<u>372,615</u>	<u>580,793</u>	<u>736,755</u>
OTHER COMPREHENSIVE INCOME / (LOSS)				
Other comprehensive income / (loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations		61,308	(4,002)	(67,407)
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of the Company's financial statements into the presentation currency		<u>(659,908)</u>	<u>591,893</u>	<u>(441,728)</u>
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR, NET OF INCOME TAX OF NIL		<u>(598,600)</u>	<u>587,891</u>	<u>(509,135)</u>
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		<u>(225,985)</u>	<u>1,168,684</u>	<u>227,620</u>

	Notes	Year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
PROFIT ATTRIBUTABLE TO:				
Equity holders of the Company		349,343	513,356	676,459
Non-controlling interests		23,272	67,437	60,296
		<u>372,615</u>	<u>580,793</u>	<u>736,755</u>
TOTAL COMPREHENSIVE INCOME/(LOSS)				
ATTRIBUTABLE TO:				
Equity holders of the Company		(228,390)	1,070,925	195,887
Non-controlling interests		2,405	97,759	31,733
		<u>(225,985)</u>	<u>1,168,684</u>	<u>227,620</u>
EARNINGS PER SHARE ATTRIBUTABLE TO				
EQUITY HOLDERS OF THE COMPANY				
— Basic and diluted	13	<u>HK13.4 cents</u>	<u>HK19.6 cents</u>	<u>HK25.6 cents</u>

## Consolidated statements of financial position

	Notes	As at 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	14	142,017	146,064	144,779
Prepaid land lease payments	15	5,954	5,974	5,372
		<u>147,971</u>	<u>152,038</u>	<u>150,151</u>
Intangible assets	16	1,259,449	1,489,718	1,536,169
Goodwill	17	1,185,478	1,259,922	1,242,713
Interests in associates	18	1,327	1,445	3,011
Trade and other receivables	22	9,863	10,515	159,259
Service concession financial receivables	20	8,179,732	10,313,724	11,727,822
Total non-current assets		<u>10,783,820</u>	<u>13,227,362</u>	<u>14,819,125</u>
<b>CURRENT ASSETS</b>				
Inventories	21	14,323	14,342	40,436
Trade and other receivables	22	588,739	805,859	1,025,044
Service concession financial receivables	20	791,609	1,200,539	1,424,161
Fixed deposits with maturity period over three months	23	543,340	630,403	547,050
Cash and cash equivalents	24	1,359,401	2,169,414	1,728,573
Total current assets		<u>3,297,412</u>	<u>4,820,557</u>	<u>4,765,264</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	25	937,238	1,553,565	1,895,095
Borrowings	26	1,521,407	1,903,722	2,160,400
Tax payable		13,102	49,951	45,083
Total current liabilities		<u>2,471,747</u>	<u>3,507,238</u>	<u>4,100,578</u>
NET CURRENT ASSETS		<u>825,665</u>	<u>1,313,319</u>	<u>664,686</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,609,485</u>	<u>14,540,681</u>	<u>15,483,811</u>
<b>NON-CURRENT LIABILITIES</b>				
Borrowings	26	3,366,091	4,728,030	5,440,376
Deferred tax liabilities	28	1,051,692	1,270,846	1,379,738
Total non-current liabilities		<u>4,417,783</u>	<u>5,998,876</u>	<u>6,820,114</u>
NET ASSETS		<u>7,191,702</u>	<u>8,541,805</u>	<u>8,663,697</u>

		<u>As at 31 December</u>		
	<b>Notes</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY				
<b>Equity attributable to equity holders of the Company</b>				
Share capital	29	2,609,908	2,625,642	2,676,062
Reserves	30	<u>4,188,279</u>	<u>5,231,541</u>	<u>5,307,128</u>
		6,798,187	7,857,183	7,983,190
Non-controlling interests		<u>393,515</u>	<u>684,622</u>	<u>680,507</u>
<b>TOTAL EQUITY</b>		<u><u>7,191,702</u></u>	<u><u>8,541,805</u></u>	<u><u>8,663,697</u></u>

## Consolidated statements of changes in equity

	Attributable to the equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Foreign currency translation reserve	Statutory reserve	Contributed surplus	Other reserves	Retained earnings		
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	2,608,014	1,210,050	(1,887)	121,317	1,243,508	(2,181)	1,882,122	7,060,943	7,297,020
Profit for the year	—	—	—	—	—	—	349,343	349,343	372,615
Other comprehensive loss for the year:									
Foreign currency translation differences	—	—	(577,733)	—	—	—	—	(577,733)	(20,867)
Total comprehensive income / (loss) for the year	—	—	(577,733)	—	—	—	349,343	(228,390)	2,405
Issue of shares pursuant to a scrip dividend scheme	29	10,177	—	—	—	—	—	40,427	40,427
Final 2015 dividend declared	—	—	—	—	—	—	(52,304)	(52,304)	(52,304)
Share buy-back	29	(8,283)	—	—	(14,206)	—	—	(22,489)	(22,489)
Capital contributions received by non-wholly-owned subsidiaries from non-controlling shareholders	—	—	—	—	—	—	—	—	169,583
Dividends paid to a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	—	—	(14,550)
Transfer to statutory reserve	—	—	—	34,318	—	—	(34,318)	—	—
At 31 December 2016	2,609,908	1,240,300*	(579,620)*	155,635*	1,229,302*	(2,181)*	2,144,843*	6,798,187	7,191,702

## Attributable to the equity holders of the Company

	Notes	Share capital		Share premium HK\$'000	Foreign currency translation reserve		Statutory reserve HK\$'000	Contributed surplus			Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
		HK\$'000	'000		HK\$'000	HK\$'000		HK\$'000	HK\$'000	HK\$'000					
At 1 January 2017		2,609,908	—	1,240,300	(579,620)	155,635	1,229,302	(2,181)	2,144,843	6,798,187	393,515	7,191,702			
Profit for the year		—	—	—	—	—	—	—	513,356	513,356	67,437	580,793			
Other comprehensive income for the year:															
Foreign currency translation differences		—	—	—	557,569	—	—	—	—	557,569	30,322	587,891			
Total comprehensive income for the year		—	—	—	557,569	—	—	—	513,356	1,070,925	97,759	1,168,684			
Issue of shares pursuant to a scrip dividend scheme	29	15,734	—	26,116	—	—	—	—	—	41,850	—	41,850			
Share issue expenses	29	—	—	(168)	—	—	—	—	—	(168)	—	(168)			
Final 2016 dividend declared		—	—	—	—	—	—	—	(53,611)	(53,611)	—	(53,611)			
Capital contributions received by non-wholly-owned subsidiaries from non-controlling shareholders		—	—	—	—	—	—	—	—	—	214,798	214,798			
Dividends declared to a non-controlling shareholder of a subsidiary		—	—	—	—	—	—	—	—	—	(21,450)	(21,450)			
Transfer to statutory reserve		—	—	—	—	45,164	—	—	(45,164)	—	—	—			
At 31 December 2017		2,625,642	—	1,266,248*	(22,051)*	200,799*	1,229,302*	(2,181)*	2,559,424*	7,857,183	684,622	8,541,805			



## Attributable to the equity holders of the Company

Notes	Share capital HK\$'000	Share premium HK\$'000	Foreign currency		Contributed surplus		Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
			translation reserve HK\$'000	Statutory reserve HK\$'000	reserve	reserve					
At 1 January 2018:	2,625,642	1,266,248	(22,051)	200,799	1,229,302	(2,181)	2,559,424	7,857,183	684,622	8,541,805	
Originally stated	—	—	—	—	—	—	(35,669)	(35,669)	—	(35,669)	
Effect on adoption of International Financial Reporting Standard 9	2,625,642	1,266,248	(22,051)	200,799	1,229,302	(2,181)	2,523,755	7,821,514	684,622	8,506,136	
As restated	—	—	—	—	—	—	676,459	676,459	60,296	736,755	
Profit for the year	—	—	—	—	—	—	—	—	—	—	
Other comprehensive loss for the year:	—	—	(480,572)	—	—	—	—	(480,572)	(28,563)	(509,135)	
Foreign currency translation differences	—	—	(480,572)	—	—	—	—	—	31,733	227,620	
Total comprehensive income / (loss) for the year	—	—	—	—	—	—	676,459	195,887	—	117,701	
Issue of shares pursuant to a scrip dividend scheme	50,420	67,281	—	—	—	—	—	117,701	—	(348)	
Share issue expenses	—	(348)	—	—	—	—	—	(348)	—	(76,920)	
Final 2017 dividend declared	—	—	—	—	—	—	(76,920)	(76,920)	—	(74,644)	
Interim 2018 dividend	—	—	—	—	—	—	(74,644)	(74,644)	—	—	
Capital contribution received by a non-wholly-owned subsidiary from a non-controlling shareholder	—	—	—	—	—	—	—	—	192	192	
Dividends declared to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	(36,040)	(36,040)	
Transfer to statutory reserve	—	—	—	99,587	—	—	(99,587)	—	—	—	
At 31 December 2018	2,676,062	1,333,181*	(502,623)*	300,386*	1,229,302*	(2,181)*	2,949,063*	7,983,190	680,507	8,663,697	

\* These reserve accounts comprise the consolidated reserves of HK\$4,188,279,000, HK\$5,231,541,000 and HK\$5,307,128,000 as at 31 December 2016, 31 December 2017 and 31 December 2018 in the consolidated statements of financial position, respectively.

## Consolidated statements of cash flows

	Notes	Year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		537,476	844,605	1,051,739
Adjustments for:				
Depreciation of property, plant and equipment	8	14,680	14,613	16,736
Amortisation of prepaid land lease payments	8	306	347	357
Amortisation of intangible assets	8	86,290	80,119	72,349
Gain on disposal of equity interest in a subsidiary	6	(402)	—	—
Loss/(gain) on disposal of property, plant and equipment	8	369	(23)	445
Net finance costs	7	197,592	228,928	273,480
Share of profits of associates		—	(158)	(422)
Impairment of trade receivables	8	—	—	16,664
Fair value gains, net :				
Fair value adjustment of contingent consideration receivable	6	—	—	(3,428)
Effect on foreign exchange rates changes		(40,658)	16,842	45,559
		795,653	1,185,273	1,473,479
Decrease/(increase) in inventories		(5,465)	861	(27,907)
Increase in service concession financial receivables		(934,982)	(1,915,443)	(2,233,287)
Decrease/(increase) in trade and other receivables		9,868	(173,252)	(421,441)
Increase in trade and other payables		288,913	712,157	341,840
Cash generated from/(used in) operations		153,987	(190,404)	(867,316)
People's Republic of China ("PRC") income tax paid		(133,792)	(73,856)	(148,331)
Net cash flows from/(used in) operating activities		20,195	(264,260)	(1,015,647)

	Notes	Year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Disposal of equity interest in a subsidiary, net of cash disposed		(1,195)	—	—
Payment made for acquisition of subsidiaries, net of cash acquired	31	—	—	(51,494)
Capital contribution to an associate	18	—	—	(1,168)
Interest received		7,631	12,463	17,918
Purchases of items of property, plant and equipment and prepayment of land leases		(11,864)	(9,741)	(11,176)
Proceeds from sale of property, plant and equipment		87	581	89
Payment for additions of intangible assets		(988)	(221,411)	(181,134)
Increase in an amount due from an associate		—	—	(4,551)
Decrease/(increase) in fixed deposits with maturity period over three months and restricted balances in financial institutions		—	(172,755)	177,975
Net cash flows used in investing activities		(6,329)	(390,863)	(53,541)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Expenses from issue of shares	29	—	(168)	(348)
Proceeds from issue of corporate bonds, net of related expenses paid	27	—	1,144,831	944,251
New bank and other loans		4,431,374	1,959,205	2,418,142
Repayment of bank and other loans		(4,121,687)	(1,592,312)	(2,229,213)
Interest paid	32(a)	(205,223)	(198,753)	(268,257)
Increase/(decrease) in amounts due to fellow subsidiaries		8,256	(154,928)	—
Increase/(decrease) in amounts due to intermediate holding companies		3,711	(79,034)	4
Increase in pledged bank deposits		(94,734)	—	(22,669)
Payments for share buy-back	29	(22,489)	—	—
Dividends paid to shareholders	32(a)	(11,877)	(12,348)	(31,687)
Dividends paid to non-controlling shareholders of subsidiaries	32(a)	(14,550)	—	(28,609)
Contributions from non-controlling shareholders of subsidiaries		169,583	214,798	192
Net cash flows from financing activities		142,364	1,281,291	781,806

	Notes	Year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		156,230	626,168	(287,382)
Cash and cash equivalents at beginning of year		1,288,550	1,359,401	2,074,414
Effect of exchange rate fluctuations on cash and cash equivalents, net		<u>(85,379)</u>	<u>88,845</u>	<u>(80,161)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>1,359,401</u>	<u>2,074,414</u>	<u>1,706,871</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances as stated in the consolidated statements of financial position	24	1,359,401	2,169,414	1,728,573
Less: Pledged bank deposits	24	—	—	(21,702)
Less: Restricted balances in financial institutions	24	—	<u>(95,000)</u>	—
Cash and cash equivalents as stated in the consolidated statements of cash flows		<u>1,359,401</u>	<u>2,074,414</u>	<u>1,706,871</u>

## Statements of financial position of the Company

	Notes	As at 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	31	26	18
Interests in subsidiaries	19	<u>9,190,573</u>	<u>11,700,251</u>	<u>10,741,587</u>
Total non-current assets		<u>9,190,604</u>	<u>11,700,277</u>	<u>10,741,605</u>
CURRENT ASSETS				
Other receivables	22	2,096,933	1,834,010	3,663,426
Cash and cash equivalents	24	<u>30,716</u>	<u>27,783</u>	<u>31,661</u>
Total current assets		<u>2,127,649</u>	<u>1,861,793</u>	<u>3,695,087</u>
CURRENT LIABILITIES				
Trade and other payables	25	20,655	155,531	102,001
Borrowings	26	<u>756,892</u>	<u>1,356,402</u>	<u>1,053,319</u>
Total current liabilities		<u>777,547</u>	<u>1,511,933</u>	<u>1,155,320</u>
NET CURRENT ASSETS		<u>1,350,102</u>	<u>349,860</u>	<u>2,539,767</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,540,706</u>	<u>12,050,137</u>	<u>13,281,372</u>
NON-CURRENT LIABILITIES				
Borrowings	26	<u>1,203,692</u>	<u>2,077,690</u>	<u>3,511,586</u>
NET ASSETS		<u>9,337,014</u>	<u>9,972,447</u>	<u>9,769,786</u>
EQUITY				
Share capital	29	2,609,908	2,625,642	2,676,062
Reserves	30	<u>6,727,106</u>	<u>7,346,805</u>	<u>7,093,724</u>
TOTAL EQUITY		<u>9,337,014</u>	<u>9,972,447</u>	<u>9,769,786</u>

**II. NOTES TO HISTORICAL FINANCIAL INFORMATION****1. CORPORATE INFORMATION**

The Company is a limited liability company incorporated in Bermuda and is listed on the Mainboard of the Singapore Exchange Securities Trading Limited. The registered address of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is at 26th Floor, Block A, Oriental Xintiandi Plaza, No. 1003 Shennan Avenue, Futian District, Shenzhen, PRC.

The principal activity of the Company is investment holding. The Company's subsidiaries are primarily involved in the water environment management business in the PRC.

The immediate holding company of the Company is China Everbright Water Holdings Limited, a limited liability company incorporated in the British Virgin Islands ("BVI"). In the opinion of the directors, the ultimate holding entity of the Company is China Investment Corporation, an entity established in the PRC.

As at the date of this report, the Company had direct and indirect interests in the following subsidiaries, all of which are private limited liability companies (or, if incorporated/registered outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December
			Direct	Indirect			
Anshan City Water Operating Co., Ltd.^ (note (7))	PRC/ Mainland China 15 March 2006	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
Aqua Shine Group Limited	BVI 18 April 2011	United States dollar ("US\$")1	100	—	Investment holding	Note (1)	Note (1)
Beijing Everbright Water Investment Management Co., Ltd. (formerly known as "Beijing Hankelin Environmental Technology Co., Ltd.") ("BEWI")^	PRC/ Mainland China 26 October 2010	RMB1,200,000,000	—	100	Investment and investment Public Accountants management (Special General Partnership) (大華會計師事務所 (特殊普通合伙) )	Dahua Certified Public Accountants (Special General Partnership)	2016, 2017 & 2018
Beijing Hankesen Environmental Technology Co., Ltd.^	PRC/ Mainland China 27 June 2011	RMB9,582,816	—	100	Research and development Public Accountants ("R&D") and consultation on water treatment technology (特殊普通合伙) )	Dahua Certified Public Accountants (Special General Partnership) (大華會計師事務所 (特殊普通合伙) )	2016, 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December
			Direct	Indirect			
Biopower International Limited	BVI 15 March 2005	US\$1	—	100	Investment holding	Note (1)	Note (1)
Bio-Treat International Limited	BVI 11 July 2003	US\$10,000	—	100	Investment holding	Note (1)	Note (1)
Bio-Treat Resources Limited	BVI 11 July 2003	US\$10,000	—	100	Investment holding	Note (1)	Note (1)
CEW Corporate Services Limited	Hong Kong 8 December 2016	HK\$100	—	100	Corporate services	Ernst & Young, Hong Kong	2017 & 2018
China Everbright Water International Pte. Ltd. (formerly known as "HanKore International Pte. Ltd.")	Singapore 18 July 2011	Singapore dollars ("SGD") 5,000,000	100	—	Investment holding, technology R&D, business development and management services	KPMG LLP, Singapore	2016
China Everbright Water Investments Limited ("CEWIL")	BVI 25 March 2003	US\$2	100	—	Investment holding	Ernst & Young LLP, Singapore	2017 & 2018
						KPMG, Hong Kong	2016
						Ernst & Young, Hong Kong	2017 & 2018



Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December
China Everbright Water Management Limited	Hong Kong 6 January 2015	HK\$100	—	100	Investment holding	KPMG, Hong Kong	2016
Dalian Bonded Area EW Water Co., Ltd. (formerly known as "Dalian Bonded Area Dongda Waste Water Treatment Co., Ltd.") <sup>^</sup> (note (7))	PRC/ Mainland China 25 January 2013	RMB10,000,000	—	100 Note (9)	Waste water treatment	Ernst & Young, Hong Kong Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2017 & 2018 2016, 2017 & 2018
Dalian EW Chunliuhe Water Co., Ltd. (formerly known as "Dalian Dongda Environment Group Chunliuhe Waste Water Treatment Co., Ltd.") <sup>^</sup> (note (6) & note (7))	PRC/ Mainland China 28 July 2006	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
Dalian EW Malanhe Water Co., Ltd. (formerly known as "Dalian Dongda Environment Group Malanhe Waste Water Treatment Co., Ltd.") <sup>^</sup> (note (6) & note (7))	PRC/ Mainland China 28 July 2006	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2016, 2017 & 2018
			Direct	Indirect			
Dalian Pulandian Area EW Water Co., Ltd. (formerly known as "Dalian Dongda Environment Group Pulandian Water Co., Ltd.")^ (note (7))	PRC/ Mainland China 22 June 2006	RMB34,500,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	
Everbright Water (Dalian) Co., Ltd. (formerly known as "Dalian Dongda Water Co., Ltd.") ("Dalian Dongda")^ (note (7))	PRC/ Mainland China 19 December 2003	RMB120,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
Dalian Lvshun City Waste Water Treatment Co., Ltd.^ (note (7))	PRC/ Mainland China 17 November 2003	RMB13,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
Dalian Lvshun Sanjianpu Waste Water Treatment Co., Ltd.^ (note (7))	PRC/ Mainland China 10 September 2009	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December
Dalian Pulandian Area Tiexi EW Waste Water Treatment Co., Ltd. (formerly known as "Dalian Puwan New District Dongda Waste Water Treatment Co., Ltd.") <sup>^</sup> (note (7))	PRC/ Mainland China 12 July 2011	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
Dalian Siergou Water Co., Ltd. <sup>^</sup> (note (6) & note (7))	PRC/ Mainland China 31 July 2009	RMB30,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
Dandong Dongda Waste Water Treatment Co., Ltd. <sup>^</sup> (note (7))	PRC/ Mainland China 15 May 2009	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
Dezhou Everbright Water Pipeline Limited <sup>^</sup> (note (6) & note (7))	PRC/ Mainland China 20 March 2018	RMB35,000,000	—	100	Construction management	Dezhou Dingyue Certified Public Accountants (General Partnership) (德州 市鼎躍會計師事務所 (普通合夥))	2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2016, 2017 & 2018
			Direct	Indirect			
Shenyang Hunnan EW Water Co., Ltd. (formerly known as "Dongda Group (Shenyang) Hunnan Water Co., Ltd.") <sup>^</sup> (note (7))	PRC/ Mainland China 29 July 2010	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	
Tongliao City Northern Waste Water Treatment Co., Ltd (formerly known as "Dongda Group Tongliao Water Co., Ltd.") <sup>^</sup> (note (7))	PRC/ Mainland China 25 December 2009	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
Dalian Zhuanghe EW Water Co., Ltd. (formerly known as "Dongda Group Zhuanghe Water Co., Ltd.") <sup>^</sup> (note (7))	PRC/ Mainland China 27 March 2008	RMB10,000,000	—	100 Note (9)	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018
E+B Umwelttechnik GmbH	Germany 12 February 2018	EUR100,000	—	80	R&D	Note (1)	Note (1)
Everbright Industrial Waste Water Treatment Nanjing Limited <sup>^</sup> (note (7))	PRC/ Mainland China 2 September 2016	RMB50,000,000	—	60	Waste water treatment	Nanjing Weishixin Certified Public Accountants (南京 維施信會計師事務所)	2016

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December 2017 & 2018
Everbright Reusable Water (Jiangyin) Limited*	PRC/ Mainland China 18 May 2011	US\$5,000,000	—	100	Reusable water	Jiangyin Tiancheng Certified Public Accountants Co., Ltd. (江陰天成會計師事 務所有限公司)	2016, 2017 & 2018
Everbright Reusable Water (Nanjing) Limited* (note (7))	PRC/ Mainland China 14 March 2016	US\$4,700,000	—	100	Reusable water	Jiangsu Sushuixuntong Certified Public Accountants Co., Ltd. (江蘇蘇稅訊通 會計師事務所有限公 司)	2016, 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December
Everbright River Basin Remediation (Nanjing) Limited* (note (7))	PRC/ Mainland China 9 November 2016	RMB92,000,000	—	100	River basin ecological repair	Jiangsu Sushuixuntong Certified Public Accountants Co., Ltd. (江蘇蘇稅訊通會計 師事務所有限公司)	2016, 2017 & 2018
Everbright Sponge City Development (Zhenjiang) Limited# (note (7))	PRC/ Mainland China 1 June 2016	RMB462,000,000	70	—	Sponge city construction, operation and R&D	Jiangsu Lixin Certified Public Accountants Co., Ltd. (江蘇立信會計 師事務所有限公司)	2016, 2017 & 2018
Everbright Water (Beijing) Limited (formerly known as "Beijing Bio-Treat Water Co., Ltd.")# (note (7))	PRC/ Mainland China 15 August 2006	RMB119,310,000	—	100	Waste water treatment	Beijing Daxing Certified Public Accountants Co., Ltd. (北京達興會計 師事務所有限責任公 司)	2016, 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2016, 2017 & 2018
			Direct	Indirect			
Everbright Water (Binzhou) Limited (formerly known as "Binzhou Jin Di Co., Ltd.") <sup>^</sup> (note (7))	PRC/ Mainland China 8 November 2007	RMB48,220,000	—	100	Waste water treatment	Shandong Shuntianxincheng Certified Public Accountants Co., Ltd. Binzhou Office (山東舜天信 誠會計師事務所有限 公司濱州分所)	
Everbright Water (Boxing) Limited* (note (7))	PRC/ Mainland China 21 February 2008	HK\$94,375,000	—	100	Waste water treatment	Shenzhen Putian Certified Public Accountants Co., Ltd. (深圳普天會計 師事務所有限公司)	
Everbright Water (Dezhou) Holdings Limited	Hong Kong 8 November 2007	HK\$100	—	100	Investment holding	KPMG, Hong Kong Ernst & Young, Hong Kong	

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2016, 2017 & 2018
			Direct	Indirect			
Everbright Water (Dezhou) Limited* (note (7))	PRC/ Mainland China 24 February 2012	US\$12,280,000	—	100	Waste water treatment	Dezhou Dingyue Certified Public Accountants (General Partnership) (德州 市鼎躍會計師事務所 (普通合夥))	
Everbright Water (Jiangyin) Limited# (note (6) & note (7))	PRC/ Mainland China 26 December 2007	RMB180,000,000	—	70	Waste water treatment	Jiangyin Tiancheng Certified Public Accountants Co., Ltd. (江陰天成會計 師事務所有限公司)	2016, 2017 & 2018
Everbright Water (Ji'nan Licheng) Limited* (note (7))	PRC/ Mainland China 26 November 2008	RMB199,848,000	—	100	Waste water treatment	Qingdao Zhenqing Certified Public Accountants Co., Ltd., Ji'nan Office (青島振青會計師事務 所有限公司濟南分所)	2016



Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital		Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
		Direct	Indirect	Direct	Indirect		Statutory auditors	Financial period ended 31 December 2017
Everbright Water (Ji'nan) Holdings Limited	Hong Kong 11 June 2007	HK\$100	—	100	—	Investment holding	KPMG, Hong Kong	2016
Everbright Water (Ji'nan) Limited* (note (7))	PRC/ Mainland China 10 October 2006	US\$106,246,600	—	100	—	Waste water treatment	Ernst & Young, Hong Kong Qingdao Zhenqing Certified Public Accountants Co., Ltd., Ji'nan Office (青島振青會計師事務 所有限公司濟南分所)	2016 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital		Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2017
		Direct	Indirect	Direct	Indirect			
Everbright Water (Juxian) Limited* (note (7))	PRC/ Mainland China 1 July 2015	RMB58,200,000	—	100		Waste water treatment	Shandong Shuntianxincheng Certified Public Accountants Co. Ltd., Juxian Office (山東舜天信誠會計師 事務所有限公司莒縣 分所)	2016
							Qingdao Zhenqing Certified Public Accountants Co., Ltd. Ji'nan Office (青島振青會計師事務 所有限公司濟南分所)	2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2017 & 2018
			Direct	Indirect			
Everbright Water (Kunshan) Limited (formerly known as "Kunshan Gang Dong Wastewater Treatment Co., Ltd.")* (note (7))	PRC/ Mainland China 29 March 2004	HK\$100,000,000	—	100	Waste water treatment	Jiangsu Jinling Certified Public Accountants Co., Ltd. (臨沂沂州會計 師事務所有限公司)	2016, 2017 & 2018
Everbright Water (Laiyang) Limited#	PRC/ Mainland China 4 December 2018	RMB169,521,765	—	90	Waste water treatment	Note (2)	Note (2)
Everbright Water (Lianyungang) Limited (formerly known as "Lianyungang King Fortune Water Co., Ltd.")* (note (7))	PRC/ Mainland China 21 June 2005	HK\$78,980,250	—	100	Waste water treatment	Jiangsu Suyajincheng Certified Public Accountants (Special General Partnership) (江蘇 蘇亞金誠會計師事務 所 (特殊普通合夥))	2016, 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December
Everbright Water (Lingxian) Limited* (note (7))	PRC/ Mainland China 12 December 2009	US\$10,962,800	—	100	Waste water treatment	Dezhou Dingyue Certified Public Accountants (General Partnership) (德州 市鼎躍會計師事務所 (普通合夥))	2016, 2017 & 2018
Everbright Water (Nanjing) Limited (formerly known as "Nanjing Golden Idea Water Development Co., Ltd.")* (note (7))	PRC/ Mainland China 21 March 2006	US\$96,186,423	—	100	Waste water treatment	Jiangsu Sushuixuntong Certified Public Accountants Co., Ltd. (江蘇蘇稅訊通 會計師事務所有限公 司)	2016, 2017 & 2018
Everbright Water (Nanning) Limited ("EB Water Nanning")# (note (6) & note (7))	PRC/ Mainland China 30 September 2017	RMB488,690,000	79.6 Note (3)	—	River restoration works	Guangxi Guincheng Certified Public Accountants Co., Ltd. (廣西桂鑫誠會 計師事務所有限公司)	2017

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2018
			Direct	Indirect			
Everbright Water (Qingdao) Holdings Limited ("EW (Qingdao) Holdings")	Hong Kong 15 October 2003	HK\$10,710,680	—	100	Investment holding	KPMG, Hong Kong	2016
Everbright Water (Qingdao) Limited (formerly known as "Qingdao EB-VW Waste Water Treatment Co. Ltd.") ("EB Water Qingdao")# (note (7))	PRC/ Mainland China 13 August 2004	US\$15,257,400	—	Note (4)	Waste water treatment	Ernst & Young, Hong Kong Qingdao Zhenqing Certified Public Accountants Co., Ltd. (青島振青會計師事 務所有限公司)	2016 2017 & 2018
						Yountai Zhenqing Certified Public Accountants Co., Ltd. (尤尼泰振青會 計師事務所有限公司)	2017

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2018
			Direct	Indirect			
Everbright Water (Shenzhen) Limited*	PRC/ Mainland China 16 March 2015	HK\$10,000,000	—	100	Water investment and Public Accountants management	Qingdao Zhongcai Certified Public Accountants Co., Ltd. (青島中才有限 責任會計師事務所)	2016, 2017 & 2018
Everbright Water (Suizhou) Holdings Limited	Hong Kong 17 March 2017	HK\$100	—	100	Investment holding	Ernst & Young, Hong Kong	2017 & 2018
Everbright Water (Suzhou) Limited (formerly known as "Suzhou Jin Di Water Co., Ltd.")# (note (7))	PRC/ Mainland China 3 July 2006	HK\$258,000,000	—	100	Waste water treatment	Suzhou Dongxin Certified Public Accountants Co., Ltd. (蘇州東信會計 師事務所有限公司)	2016, 2017 & 2018
Everbright Water (Wuxi) Holdings Limited	Hong Kong 3 October 2007	HK\$100	—	100	Investment holding	KPMG, Hong Kong	2016 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December
			Direct	Indirect			
Everbright Water (Xianyang) Limited (formerly known as "Xianyang Bai Sheng Shui Purifying Co., Ltd.")* (note (6) & note (7))	PRC/ Mainland China 19 May 2003	RMB94,000,000	—	100	Waste water treatment	Xianyang Chichun United Certified Public Accountants (咸陽赤淳聯合會計師 事務所)	2016
Everbright Water (Xinyi) Limited*	PRC/ Mainland China 4 March 2010	HK\$174,590,000	—	100	Waste water treatment	Xuzhou Huaxing Certified Public Accountants Co., Ltd. (徐州華興 會計師事務所有限公司)	2016 & 2017
Everbright Water (Xuzhou) Holdings Limited	Hong Kong 14 January 2010	HK\$100	—	100	Investment holding	KPMG, Hong Kong	2016

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2017 & 2018
			Direct	Indirect			
Everbright Water (Xuzhou) Limited	PRC/ Mainland China 4 December 2018	RMB15,438,000	—	100	Leachate and waste water treatment	Note (2) Ernst & Young, Hong Kong	Note (2)
Everbright Water (Yangzhou) Limited (formerly known as "Yangzhou HanKore Water Development Co., Ltd.")* (note (7))	PRC/ Mainland China 14 December 2004	US\$14,000,000	—	100	Waste water treatment	Yangzhou Surui Certified Public Accountants (General Partnership) (揚州蘇瑞會計師事 務所 (普通合夥))	2016, 2017 & 2018
Everbright Water (Zhangqiu) Limited* (note (7))	PRC/ Mainland China 4 June 2013	RMB30,349,700	—	100	Waste water treatment	Shandong Shunxing Certified Public Accountants (山東舜興會計師事務 所)	2016, 2017 & 2018
Everbright Water (Zhangqiu) Operating Limited# (note (7))	PRC/ Mainland China 14 April 2016	RMB65,507,600	—	95	Waste water treatment and operation services	Shandong Shunxing Certified Public Accountants (山東舜興會計師事務 所)	2016, 2017 & 2018



Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December
Everbright Water (Zibo Zhoucun) Water Purification Co., Ltd.* (note (7))	PRC/ Mainland China 5 December 2007	HK\$35,000,000	—	100	Waste water treatment	Shenzhen Putian Certified Public Accountants Co., Ltd. (深圳普天會計 師事務所有限公司)	2016, 2017 & 2018
Everbright Water (Zibo) Holdings Limited	Hong Kong 11 June 2007	HK\$100	—	100	Investment holding	KPMG, Hong Kong	2016
Everbright Water (Zibo) Limited* (note (7))	PRC/ Mainland China 15 November 2005	US\$85,666,900	—	100	Waste water treatment	Ernst & Young, Hong Kong Shenzhen Putian Certified Public Accountants Co., Ltd. (深圳普天會計 師事務所有限公司)	2017 & 2018 2016, 2017 & 2018
Everbright Water Investment Consulting (Shenzhen) Limited^ (note (10))	PRC/ Mainland China 7 February 2017	RMB10,000,000	—	100	Investment consulting	Note (1)	Note (1)
Everbright Water Operating (Xinyi) Limited# (note (7))	PRC/ Mainland China 24 June 2016	US\$19,496,300	—	60.4	Waste water treatment and reusable water	Xuzhou Huaxing Certified Public Accountants Co., Ltd. (徐州華興會計師事 務所有限公司)	2016, 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2016, 2017 & 2018
			Direct	Indirect			
Everbright Water Purification Nanjing Limited (formerly known as "Nanjing Jin Huan Water Development Co., Ltd.") <sup>^</sup> (note (7))	PRC/ Mainland China 23 November 2006	RMB14,750,000	—	100	Waste water treatment	Nanjing Weishixin Certified Public Accountants (南京 維施信會計師事務所)	
Everbright Water Suizhou Water Environment Management Limited# (note (7))	PRC/ Mainland China 8 May 2017	RMB260,000,000	78.4	—	River restoration works	Suizhou Fangzheng Certified Public Accountants Co., Ltd. (隨州方正有限責任 會計師事務所)	2017 & 2018
Everbright Water Technology Development (Nanjing) Limited <sup>^</sup>	PRC/ Mainland China 18 April 2017	RMB10,000,000	—	100	R&D and consultation on technology	Nanjing Bowen Certified Public Accountants Co., Ltd. (南京博文會計 師事務所有限公司)	2017
						Anhui Guo'an Certified Public Accountants Co., Ltd. (安徽國安會計 師事務所)	2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December Note (2)
Everbright Water Treatment (Jiangyin) Limited ^ (note (7))	PRC/ Mainland China 5 September 2017	US\$100,000,000	—	100	Waste water treatment and construction and maintenance of pipeline network	Note (2)	2016 & 2017
Jiangsu Tongyong Environment Engineering Co., Ltd.^	PRC/ Mainland China 11 June 2007	RMB55,080,000	—	100	Construction engineering	Wuxi Dazhong Certified Public Accountants Co., Ltd., Yixing Office (無錫大眾會計師事務所 所有有限公司宜興分所)	2016 & 2017
Ji'nan Everbright Water Supply Limited# (note (7))	PRC/ Mainland China 10 August 2017	RMB250,000,000	—	80	Water supply, construction and operation of water source and water supply facility	Anhui Guo'an Certified Public Accountants Co., Ltd (安徽國安會計師 事務所)	2018
					Water supply, construction and operation of water source and water supply facility	Qingdao Zhenqing Certified Public Accountants Co., Ltd., Ji'nan Office	2017

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2018
			Direct	Indirect			
Joyer International Limited	BVI 7 October 2010	US\$1	100	—	Investment holding	Note (1)	Note (1)
New Efficient Limited	BVI 22 January 2004	US\$100	—	100	Investment holding	Note (1)	Note (1)
Newsussex International Limited	BVI 15 March 2005	US\$1	—	100	Investment holding	Note (1)	Note (1)
Ocean Force International Limited	BVI 11 July 2003	US\$1	100	—	Investment holding	Note (1)	Note (1)
Ocean Master International Limited	BVI 11 July 2003	US\$1	—	100	Investment holding	Note (1)	Note (1)
Oriental Fortune International Limited	Hong Kong 7 May 2004	HK\$10,000	—	100	Investment holding	Note (1)	Note (1)
Panjin City Waste Water Treatment Co., Ltd.^ (note (7))	PRC/ Mainland China 5 December 2003	RMB44,000,000	—	100	Waste water treatment	Dalian Tongfang Certified Public Accountants Co., Ltd. (大連同方會計 師事務所有限公司)	2016, 2017 & 2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December
Qingdao Haibohe Water Operating Limited (formerly known as "Qingdao Everbright Water Operating Limited") ("Qingdao Haibohe")#	PRC/ Mainland China 6 August 2004	US\$350,845	—	Note (5)	Waste water treatment	Qingdao Zhenqing Certified Public Accountants Co., Ltd. (青島振青會計師事 務所有限公司)	2016
						Younitai Zhenqing Certified Public Accountants Co., Ltd. (尤尼泰振青會 計師事務所有限公司)	2017
						Qingdao Zhenqing Certified Public Accountants Co., Ltd. (青島振青會計 師事務所有限公司)	2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December 2016, 2017 & 2018
			Direct	Indirect			
Sanmenxia Everbright Water Limited (formerly known as "Sanmenxia HanKore Water Co., Ltd.") <sup>^</sup> (note (7))	PRC/ Mainland China 6 January 2011	RMB22,000,000	—	100	Waste water treatment	Sanmenxia Ruida United Certified Public Accountants (General Partnership) (三門峽睿達聯合會 計師事務所 (普通合 夥) )	
Shanghai Weiyang Construction Design Co., Ltd. ("Shanghai Weiyang") <sup>^</sup>	PRC/ Mainland China 26 April 2011	RMB1,000,000	—	100	Survey, mapping, design and consultancy for municipal projects	Note (8)	Note (8)
Sky Billion Limited	BVI 14 January 2004	US\$10,000	—	100	Investment holding	Shenzhen Dezheng Certified Public Accountants Co., Ltd. (深圳德正會計 師事務所)	2018 Note (1)

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory financial statements	
			Direct	Indirect		Statutory auditors	Financial period ended 31 December
Suqian City Cheng Bei Wastewater Treatment Co., Ltd.*	PRC/ Mainland China 30 May 2005	US\$3,100,000	—	100	Waste water treatment	Suqian Gongxing Certified Public Accountants Co., Ltd. (宿遷公興會計 師事務所有限公司)	2016, 2017 & 2018
Suqian City Cheng Bei Water Treatment Co., Ltd.*	PRC/ Mainland China 30 May 2005	US\$3,250,000	—	100	Waste water treatment	Suqian Gongxing Certified Public Accountants Co., Ltd. (宿遷公興會計 師事務所有限公司)	2016, 2017 & 2018
Tianjin Hanquan Environment Technology Limited*	PRC/ Mainland China 7 March 2013	HK\$2,000,000	—	100	Investment holding	Tianjin Gongcai Certified Public Accountants Co., Ltd. (天津國財有限 責任會計師事務所)	2016 & 2017
						Beijing Dongsheng Dingli International Certified Public Accountants Co., Ltd. (北京東審鼎立 國際會計師事務所所有 限責任公司)	2018

Name	Place and date of incorporation/ registration and place of business	Issued ordinary share/paid up capital	Percentage of equity attributable to the Company		Principal activities	Statutory auditors	Financial period ended 31 December
			Direct	Indirect			
True Global Limited	BVI 31 March 2004	US\$1	—	100	Investment holding	Note (1)	Note (1)
Victor Best Holdings Limited	BVI 12 June 2012	US\$50,000	—	100	Investment holding	Note (1)	Note (1)
World Pioneer Investments Limited	BVI 11 July 2003	US\$100	—	100	Investment holding	Note (1)	Note (1)
Xuzhou Municipal Engineering Design Institute Co., Ltd. ("Xuzhou Engineering Design Institute")^	PRC/ Mainland China 30 December 1985	RMB6,000,000	—	100	Survey, mapping, design and consultancy for municipal projects	Jiangsu Huaihai Certified Public Accountants Co., Ltd. (江蘇淮海會計 師事務所有限公司)	2016 & 2017
Zibo Everbright Water Energy Development Company Limited^ (note (6) & note (7))	PRC/ Mainland China 8 June 2009	RMB51,350,000	—	100	Waste water source heat pump	Shenzhen Dezheng Certified Public Accountants Co., Ltd. (深圳德正會計 師事務所)	2018
						Shenzhen Putian Certified Public Accountants Co., Ltd. (深圳普天會計 師事務所)	2016, 2017 & 2018



<sup>^</sup> Registered under the laws of the PRC as private companies with limited liability

<sup>\*</sup> Registered under the laws of the PRC as foreign investment enterprises

<sup>#</sup> Registered under the laws of the PRC as Sino-foreign co-operation joint ventures

*Notes:*

- (1) No audited financial statements have been prepared and issued for these entities for the years ended 31 December 2016, 2017 and 2018 as they were not subject to any statutory audit requirement under the relevant rules and regulations in their jurisdictions of incorporation/ establishment.
- (2) No audited financial statements have been prepared and issued for these entities as they were newly established in 2017 or 2018.
- (3) The Company is committed to contributing 79.6474% of EB Water Nanning's registered capital. The remaining 20.3526% registered capital is contributed by three PRC joint venture partners. Except for one of the PRC joint venture partners, who is committed to contributing 0.0097% of registered capital and shall not be entitled to the net profit of EB Water Nanning, the Company and other two PRC joint venture partners share the net profit of EB Water Nanning on the basis of their respective proportions of registered capital contribution.
- (4) EW (Qingdao) Holdings, a wholly-owned subsidiary of the Company and the foreign joint venture partner of EB Water Qingdao, is committed to contributing 60% of EB Water Qingdao's registered capital. The remaining 40% registered capital is contributed by a PRC joint venture partner. EW (Qingdao) Holdings is fully entitled to the net profit of EB Water Qingdao for the first 14 years of the joint venture period. From the 15th year of the joint venture period onwards, the net profit of EB Water Qingdao is to be shared by EW (Qingdao) Holdings and the PRC joint venture partner on a 98:2 basis.
- (5) During the year ended 31 December 2016, the Group disposed of a partial equity interest in Qingdao Haibohe and the Group's equity interest in Qingdao Haibohe was reduced from 99% to 49%, and Qingdao Haibohe was then classified as an associate of the Group.
- (6) These subsidiaries of the Group entered into service concession arrangements with the local government authorities in the PRC (the "Grantors"). Pursuant to the service concession arrangements, the Group was granted rights to construct, operate and maintain waste water treatment related projects in the PRC for a period of 20 to 32 years. The Group has the obligation to maintain and restore the waste water treatment related projects in good condition. The service fees are based on the extent of services rendered and are subject to approvals from the relevant local government authorities. Upon expiry of the concession periods, the waste water treatment related projects and facilities will be transferred to the local government authorities.

The service concession arrangements do not contain renewal options. Both the Grantors and the Group have the rights to terminate the agreements in the event of a material breach of the terms of the agreements.

Operating rights of the waste water treatment related projects are recognised as intangible assets.

- (7) These subsidiaries of the Group entered into service concession arrangements with the Grantors. Pursuant to the service concession arrangements, the Group has to design, construct and/or upgrade, operate and maintain waste water treatment related projects in the PRC for a period of 10 to 32 years. The Group has the obligation to maintain the waste water treatment related projects in good condition. The Grantors guarantee the Group will receive minimum annual payments in connection with the arrangements. Upon expiry of the concession periods, the waste water treatment related projects and facilities will be transferred to the local government authorities.

The service concession arrangement do not contain renewal options. The standard rights of the Grantors to terminate the agreements include failure of the Group to construct, upgrade or operate the waste water treatment related projects and in the event of a material breach of the terms of the agreements. The standard rights of the Group to terminate the agreements include failure to receive payments for waste water treatment service from the Grantors and in the event of a material breach of the terms of the agreements.

Revenue relates to the construction services provided in constructing or upgrading the waste water treatment related projects is recognised as "Service concession financial receivables" in the Historical Financial Information.

- (8) No audited financial statements have been prepared and issued for this entity for the years ended 31 December 2016 and 2017 as it was not subject to any statutory audit requirement under the relevant rules and regulations in its jurisdiction of incorporation/establishment.
- (9) Subsequent to the Track Record Periods, the Group has acquired the remaining 10% equity interest of Dalian Dongda in January 2019, and thereafter Dalian Dongda and its subsidiaries became indirect wholly-owned subsidiaries of the Company.
- (10) Subsequent to the Track Record Periods, the subsidiary was dissolved in January 2019.

## 2.1 BASIS OF PRESENTATION

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group transactions and balances have been eliminated on consolidation.

## 2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"). Except for IFRS 9 *Financial Instruments*, all IFRSs effective for the accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been consistently applied by the Group in the preparation of the Historical Financial Information throughout the Track Record Periods.

The Group has applied IFRS 9, effective for the periods beginning on or after 1 January 2018. The Group has not restated financial information from 1 January 2016 to 31 December 2017 for financial instruments in the scope of IFRS 9. The financial information from 1 January 2016 to 31 December 2017 is reported under International Accounting Standard (“IAS”) 39 *Financial Instruments: Recognition and Measurement* and is not comparable to the information presented for 2018. The Group has applied IFRS 15 in the preparation of the Historical Financial Information with a date of initial application of 1 January 2016. The Group has adopted IFRS 15 using the full retrospective method of adoption.

The principal effects of adopting these new IFRSs are as follows:

(a) *IFRS 9 Financial Instruments*

IFRS 9 brings together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (“FVPL”), available for sale (“AFS”), held-to-maturity, loans and receivables, and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (“FVOCI”), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity’s own credit risk relating to liabilities designated at FVPL. Such movements are presented in other comprehensive income with no subsequent reclassification to profit or loss.

The Group's classification of its financial assets and liabilities is explained in note 2.4.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. The ECL allowance is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate ("EIR").

Details of the Group's impairment method are disclosed in note 2.4.

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	<i>Note</i>	IAS 39 measurement		IFRS 9 measurement		
		Category	Amount HK\$'000	ECL HK\$'000	Amount HK\$'000	Category
<u>Financial assets</u>						
Financial assets included in						
trade and other receivables	(i)	L&R <sup>1</sup>	551,596	(35,669)	515,927	AC <sup>2</sup>
Fixed deposits with maturity period over three months		L&R	630,403	—	630,403	AC
Cash and cash equivalents		L&R	2,169,414	—	2,169,414	AC
			<u>3,351,413</u>	<u>(35,669)</u>	<u>3,315,744</u>	
<u>Other assets</u>						
Property, plant and equipment						
			146,064	—	146,064	
Prepaid land lease payments			5,974	—	5,974	
Intangible assets			1,489,718	—	1,489,718	
Goodwill			1,259,922	—	1,259,922	
Service concession financial receivables			11,514,263	—	11,514,263	
Interest in an associate			1,445	—	1,445	
Other assets included in trade and other receivables			264,778	—	264,778	
Inventories			14,342	—	14,342	
			<u>14,696,506</u>	<u>—</u>	<u>14,696,506</u>	
Total assets			<u>18,047,919</u>	<u>(35,669)</u>	<u>18,012,250</u>	

	IAS 39		IFRS 9		Category
	Category	Amount	ECL	Amount	
	Note	HK\$'000	HK\$'000	HK\$'000	
<u>Financial liabilities</u>					
Financial liabilities included in					
trade and other payables	AC	1,493,486	—	1,493,486	AC
Borrowings	AC	6,631,752	—	6,631,752	AC
		<u>8,125,238</u>	<u>—</u>	<u>8,125,238</u>	
<u>Other liabilities</u>					
Other liabilities included in					
trade and other payables		60,079	—	60,079	
Tax payables		49,951	—	49,951	
Deferred tax liabilities		<u>1,270,846</u>	<u>—</u>	<u>1,270,846</u>	
		<u>1,380,876</u>	<u>—</u>	<u>1,380,876</u>	
Total liabilities		<u>9,506,114</u>	<u>—</u>	<u>9,506,114</u>	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

The impact of the Group's retained earnings due to the remeasurement of financial instruments as at 1 January 2018, the Group's date of initial application of IFRS 9, is as follows:

	Note	Retained earnings HK\$'000
At 1 January 2018 (originally stated)		2,559,424
Remeasurement upon initial application of IFRS 9	(i)	<u>( 35,669)</u>
At 1 January 2018 (restated)		<u>2,523,755</u>

Note:

(i) As at 1 January 2018, the Group has recorded ECL allowance under IFRS 9 of HK\$35,669,000.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, established a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and

estimates. The standard has superseded all previous revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard.

The Group has applied IFRS 15 using the full retrospective method of adoption. The Group has elected to apply the practical expedient for completed contracts and has not restated amounts for contracts completed before 1 January 2016.

The accounting policy for the Group's main types of revenue is presented in note 2.4 which has been updated to reflect the application of IFRS 15. The Group's service concession financial receivables, representing contract assets under IFRS 15, have been separately disclosed in the consolidated statements of financial position in the Historical Financial Information. More extensive disclosure on the Group's revenue transactions and additional disclosures for the contract assets and information about performance obligations related to service concession arrangements have been made in the Historical Financial Information upon the application of IFRS 15.

All customer contracts in force throughout the Track Record Periods have been reviewed and assessed and it was determined that the application of IFRS 15 had no significant impact on the recognition and measurement of revenue.

Apart from the above, the application of IFRS 15 has had no significant impact on the financial position and/or financial performance of the Group.

The Historical Financial Information has been prepared under the historical cost convention, except for contingent consideration receivable which has been measured at fair value.

### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Historical Financial Information.

Amendments to IFRS 3	<i>Definition of a Business</i> <sup>5</sup>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> <sup>1</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
IFRS 16	<i>Leases</i> <sup>1</sup>
IFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> <sup>2</sup>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i> <sup>1</sup>

Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> <sup>1</sup>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> <sup>1</sup>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 <sup>1</sup>

- 
- 1 Effective for annual periods beginning on or after 1 January 2019
  - 2 Effective for annual periods beginning on or after 1 January 2020
  - 3 Effective for annual periods beginning on or after 1 January 2021
  - 4 No mandatory effective date yet determined but available for adoption
  - 5 Effective for business combination for which the acquisition date is on or after 1 January 2020 and to asset acquisition that occurs on or after the beginning of that period.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether they would have a significant impact on the Group's financial performance and financial position. Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for leases — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition,



the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application and leases of low-value assets.

As set out in note 34 to the Historical Financial Information, the Group's total future minimum lease payments under non-cancellable operating leases as at 31 December 2016, 2017 and 2018 were approximately HK\$12,590,000, HK\$17,966,000 and HK\$10,678,000, respectively. The directors of the Company do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that a certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in consolidated statement of comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

#### Service concession arrangements

The Group has entered into a number of service concession arrangements with the Grantors.

Under these service concession arrangements:

- the Grantors control or regulate the services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and

- the Grantors control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, or the infrastructure is used for its entire useful life under the arrangements, or both the Group's practical ability to sell or pledge the infrastructure is restricted and continuing right of use of the infrastructure is given to the Grantors throughout the period of the arrangements.

The Group's infrastructure includes leasehold land, buildings, plant and machinery that are acquired from the Grantors and/or are derecognised by the Group when the directors of the Company consider that the significant risks and rewards of these assets have been passed to the Grantors.

*Consideration given by the grantor*

A financial asset (service concession financial receivables) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to manage and operate the infrastructure for public service. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified requirements. The financial asset (service concession financial receivables) is accounted for in accordance with the policy set out for "Financial assets and liabilities" below.

An intangible asset (concession right) is recognised to the extent that the Group receives a right to charge users of the public service. The intangible asset (concession right) is stated at cost less accumulated amortisation and any accumulated impairment loss. Amortisation is provided on a straight-line basis over the operation phase of the concession periods.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

*Construction of service concession related infrastructure*

Revenue relating to construction services is accounted for in accordance with the policy for "Revenue recognition" below.

*Operating services*

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below.

Fair value measurement

The Group measures its contingent consideration receivable at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets and financial assets), the asset's

recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

#### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

#### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4%
Plant and machinery	10% to 20%
Leasehold improvements, furniture and fixtures	20% to 25%
Motor vehicles and office equipment	20% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The following intangible assets are amortised from the date they are available for use and their estimated useful lives are as follows:

Concession rights	20 to 32 years
Patents and trademarks	10 to 20 years
Computer software	5 years
Backlog contracts	3 years
Customer relationships	5 years

The useful life of the patents and trademarks of the Group is determined based on the shorter of their statutory validity periods and the expected benefit periods.

The useful life of the customer relationships of the Group is determined based on the expected benefit periods with reference to the historical customer attrition rate.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the intangible asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant intangible asset.

#### *Research and development costs*

All research costs are charged to profit or loss as incurred.



Expenditure incurred on projects to develop new water environment technologies is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Water environment technologies development expenditure which does not meet these criteria is expensed when incurred.

#### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

#### Financial instruments — initial recognition

##### *Date of recognition*

Financial assets and liabilities are initially recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in the accounting policy for "Financial assets and liabilities". Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

##### *Day 1 profit or loss*

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on valuation technique using only inputs observable in market transaction, the Group recognises the difference between the transaction price and fair value in net trading income. In

those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instruments is derecognised.

*Measurement categories of financial assets and liabilities*

From 1 January 2018, the Group has classified all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at amortised cost, as explained in the policy "Financial assets and liabilities".

Financial liabilities are measured at amortised cost, as explained in the accounting policy "Financial assets and liabilities".

Financial assets and liabilities

*Loans and receivables, Financial investments at amortised cost*

Before 1 January 2018, loans and receivables, included non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term
- That the Group, upon initial recognition, designated as FVPL or as available-for-sale
- For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale

From 1 January 2018, the Group only measures loans and receivables and financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below.

(a) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(b) The SPPI assessment

As a second step of its classification process, the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

*Derivatives recorded at fair value through profit or loss*

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying')
- It requires no initial net investment or an initial net investment that is smaller than that would be required for other types of contracts expected to have a similar response to changes in market factors
- It is settled at a future date

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in fair value of derivatives are included in net trading income unless hedge accounting is applied.

*Embedded derivatives*

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contracts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities contracts. Financial assets are classified based on the business model and SPPI assessments as outlined above.

*Debt issued and other borrowed funds*

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Reclassification of financial assets and liabilities

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2016 and 2017.

Derecognition of financial assets and liabilities

## (a) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## (b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets (Policy applicable from 1 January 2018)

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

The ECL allowance is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original EIR.

For service concession financial receivables and trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Other receivables are assessed for impairment based on 12-month expected credit losses: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in an adjustment to the Group's retained earnings as at 1 January 2018.

Impairment of financial assets (Policy applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events

that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories, mainly comprise raw materials and consumable used in the repairs and maintenance of the waste water treatment plants, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. When inventories are consumed, the carrying amount of those inventories is recognised as an expense in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short-term deposits and short-term balances in financial institutions with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

For the purpose of the consolidated statements of cash flows, restricted bank balances are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition*Revenue from contracts with customers*

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

The Group has satisfied a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs
- (b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced
- (c) The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date

If none of the above conditions are met, the Group recognises revenue at the point in time at which the performance obligation is satisfied.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the surveyors' assessment of work performed and the costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

When the Group provides more than one service in a service concession arrangement, the transaction price will be allocated to each performance obligation by reference to their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

#### *Construction service revenue*

The Group's performance in respect of construction services creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue from construction service over time, by reference to completion of the specific transaction assessed on the basis of the surveyors' assessment of work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Revenue from the construction services under a service concession agreement is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered.

#### *Operation revenue*

The Group recognises revenue from environmental water project operation services when the related services are rendered. The operation revenue from reusable water supply service is recognised at a point in time when the Group has delivered water to the customer; the customer has accepted the water; the Group has the present right to payment and the collection of the consideration is probable. The other operation revenue from service concession arrangements is recognised over the period of time that the services are rendered and the benefits are received and consumed simultaneously by the customers.

#### *Finance and interest income*

Finance and interest income is recognised on an accrual basis using the EIR method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

#### Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the

customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligation. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

The Group recognises the incremental costs of obtaining a contract with a customer within contract assets if the Group expects to recover those costs.

#### Other employee benefits — pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance and are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the Historical Financial Information.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company is RMB. This Historical Financial Information is presented in Hong Kong dollars, which is the Company's presentation currency. The Company has used Hong Kong dollars as its presentation currency to be consistent with that of China Everbright Water Holdings Limited, the immediate holding company of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company, certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the

end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of the Company, certain overseas subsidiaries and associates are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

##### *Service concession arrangements*

The Group entered into Build-Operate-Transfer ("BOT"), Transfer-Operate-Transfer ("TOT") and Build-Operate-Own ("BOO") arrangements in respect of its environmental water projects.

The Group has concluded that all the BOT and TOT arrangements and certain BOO arrangements are service concession arrangements under IFRIC 12 *Service Concession Arrangements*, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In respect of BOT and TOT arrangements, upon expiry of concession right agreement, the infrastructure has to be transferred to the local government at nil consideration. Infrastructure for BOO arrangements is used in the service concession arrangements for its entire or substantially entire useful life.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Financial receivables and/or intangible assets under IFRIC 12 Service Concession Arrangements*

The Group recognises the consideration received or receivable in exchange for the construction services as a financial receivable and/or an intangible asset under a service concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future water treatment volume of the relevant water treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including revenue recognition under the financial asset and intangible asset components are determined by the Group's management based on their experience and assessment on current and future market conditions. The carrying amounts of the intangible assets ("concession rights") and service concession financial receivables at the end of reporting period are disclosed in notes 16 and 20, respectively.

*Impairment of non-financial assets other than interests in subsidiaries and goodwill*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amount may not be recoverable.

Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) are disclosed in notes 14 and 16.

*Impairment of loans and receivables/financial assets at amortised cost*

Before 1 January 2018, the Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial

difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

From 1 January 2018, the impairment loss in respect of service concession financial receivables, trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of service concession financial receivables, trade and other receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their abilities to make payments, additional allowances may be required.

The carrying amounts of the Group's loans and receivables/financial assets at amortised cost are disclosed in notes 20, 22, 23 and 24.

#### *Impairment of interests in subsidiaries*

The Company assesses at each reporting date whether there is any objective evidence that the interests in subsidiaries are impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the industry performance, technology changes, operational and financing cash flows. Management will also consider the financial condition and business prospects of the interest.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on the forecasted performance of the subsidiary. The carrying amounts of the Company's interests in subsidiaries at the reporting date are disclosed in note 19.

#### *Revenue recognition for construction work*

The Group recognises contract revenue over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's effort or inputs to the satisfaction of the performance obligation, by reference to the surveyors' assessment of work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each performance obligation in the contract. Significant assumptions are required to estimate the recoverable variation works that will affect the progress towards complete satisfaction of the performance obligation. The Group reviews and revises the estimates in each construction contract as the contract progresses.

#### *Impairment losses for goodwill*

As explained in the accounting policy set out in note 2.4 for "Business combinations and goodwill", goodwill is allocated to a cash-generating unit or to a group of cash-generating units that



are expected to benefit from the synergies of the combination for the purpose of impairment assessment, which requires significant judgement. The Group determined that the group of cash-generating units to which goodwill was allocated reflected the lowest level at which goodwill was monitored for internal reporting and was not larger than an operating segment in accordance with IAS 36 *Impairment of Assets*.

The Group determines whether goodwill is impaired at least on an annual basis. This involves an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at the reporting date is disclosed in note 17.

#### *Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Where the final tax outcome is different from the amounts that were initially recognised, such differences will impact the income and other taxes and deferred tax provisions in the period in which such determination is made.

#### **4. OPERATING SEGMENT INFORMATION**

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's executive committee and the Company's board of directors for the purpose of resource allocation and performance assessment.

The Group operates in a single business segment which is the water environment management business in the PRC. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expense, interest-bearing borrowings and related expenses and income and deferred taxes. No operating segments have been aggregated to form the following reportable operating segment.

#### **Business segment**

There is only one operating segment as the Group's operations relate to water environment management for the years ended 31 December 2016, 2017 and 2018:

- Water environment management — Engagement in sponge city construction, river-basin ecological restoration, waste water treatment, water supply, reusable water, waste water source heat pump, sludge treatment and disposal, research and development of water environment technologies and engineering construction.

**Geographical information**

All of the Group's revenues are derived from the Group's operations in the PRC. All non-current assets are located in the PRC.

**Major customers**

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer 1**	688,780	N/A*	1,585,196
Customer 2**	277,323	N/A*	N/A*
Customer 3**	N/A*	450,922	N/A*
Customer 4**	<u>N/A*</u>	<u>N/A*</u>	<u>490,005</u>

\* The corresponding revenues from these customers are not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for the remaining Track Record Periods.

\*\* The customers are local government authorities.

**5. REVENUE**

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue:</b>			
Construction service revenue from service concession arrangements	1,133,784	2,111,292	2,709,369
Finance income from service concession arrangements	538,775	601,204	720,714
Operation income from service concession arrangements	781,104	849,813	1,208,567
Operation income from reusable water supply services	30,726	28,613	29,104
Construction contract revenue and technical service income	<u>9,648</u>	<u>711</u>	<u>100,564</u>
	<u>2,494,037</u>	<u>3,591,633</u>	<u>4,768,318</u>
<b>Timing of revenue recognition:</b>			
At a point in time	30,726	28,613	29,104
Over time	<u>1,924,536</u>	<u>2,961,816</u>	<u>4,018,500</u>
	1,955,262	2,990,429	4,047,604
Finance income from service concession arrangements	<u>538,775</u>	<u>601,204</u>	<u>720,714</u>
	<u>2,494,037</u>	<u>3,591,633</u>	<u>4,768,318</u>

The aggregated revenue from construction services, finance income and operation income derived from the local government authorities in the PRC amounted to HK\$2,387,031,000,

HK\$3,531,522,000 and HK\$4,597,023,000 for the years ended 31 December 2016, 2017 and 2018, respectively. Details of concentrations of credit risk arising from these customers are set out in note 39.

## 6. OTHER INCOME AND GAINS, NET

	<u>Year ended 31 December</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grants*	6,491	11,422	23,857
Value-added tax ("VAT") refunds**	106,834	114,049	98,609
Gain on disposal of equity interest in a subsidiary (note 18)	402	—	—
Fair value gains, net:			
Fair value adjustment of contingent consideration receivable (note 22)	—	—	3,428
Sundry income	<u>13,939</u>	<u>4,338</u>	<u>14,689</u>
	<u>127,666</u>	<u>129,809</u>	<u>140,583</u>

\* Government grants of HK\$6,491,000, HK\$11,422,000 and HK\$23,857,000 were granted during the years ended 31 December 2016, 2017 and 2018, respectively, to subsidise certain water/waste water treatment plants of the Group in the PRC. There were no unfulfilled conditions and other contingencies attached to the receipts of those grants. There is no assurance that the Group will continue to receive such grants in the future.

\*\* VAT refunds of HK\$106,834,000, HK\$114,049,000 and HK\$98,609,000 were received/receivable during the years ended 31 December 2016, 2017 and 2018, respectively, in relation to certain environmental water project operations of the Group in the PRC. There were no unfulfilled conditions and other contingencies attached to the receipts of such tax refund. There is no assurance that the Group will continue to receive such tax refund in the future.

## 7. NET FINANCE COSTS

	<u>Year ended 31 December</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Finance income</u>			
Interest income on bank deposits	<u>7,631</u>	<u>12,463</u>	<u>17,918</u>
<u>Finance costs</u>			
Interest expense on:			
Bank and other loans	(194,689)	(211,109)	(220,940)
Corporate bonds	—	(22,971)	(70,458)
Amounts due to intermediate holding companies	(2,977)	(2,947)	—
Amounts due to fellow subsidiaries	<u>(7,557)</u>	<u>(4,364)</u>	<u>—</u>
	<u>(205,223)</u>	<u>(241,391)</u>	<u>(291,398)</u>
Net finance costs	<u>(197,592)</u>	<u>(228,928)</u>	<u>(273,480)</u>

## 8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Depreciation*	14	14,680	14,613	16,736
Amortisation				
— prepaid land lease payments	15	306	347	357
— intangible assets*	16	86,290	80,119	72,349
Loss/(gain) on disposal of property, plant and equipment		369	(23)	445
Cost of construction services**		896,576	1,634,636	2,131,808
Research and development costs		12,192	20,868	46,458
Minimum lease payments under operating leases		8,340	9,552	10,050
Impairment of trade receivables	22	—	—	16,664
Foreign exchange differences, net		55,887	4,239	20,221
Listing expenses		—	—	31,726
Employee benefit expense (including directors' remuneration (note 9))*:				
Wages and salaries		175,807	170,717	207,549
Defined contribution plans		46,219	44,678	49,225
Welfare and other benefits		21,451	20,507	26,466
		<u>243,477</u>	<u>235,902</u>	<u>283,240</u>
Auditor's remuneration		<u>3,459</u>	<u>2,380</u>	<u>2,380</u>

\* Amortisation of intangible assets, depreciation and employee benefit expense in total of HK\$225,297,000, HK\$207,029,000 and HK\$226,495,000 for the years ended 31 December 2016, 2017 and 2018, respectively, are included in "Direct costs and operating expenses" on the face of the consolidated statements of comprehensive income.

\*\* Included in "Direct costs and operating expenses" on the face of the consolidated statements of comprehensive income.

As at the end of each of the Track Record Periods, the Group had no forfeited contributions available to reduce its contributions to the retirement schemes in future years.

## 9. DIRECTORS' REMUNERATION

The remuneration of each of the Company's directors is set out below:

	<b>Year ended 31 December</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		
Fees	<u>1,071</u>	<u>1,163</u>	<u>1,880</u>		
Other emoluments:					
Salaries, allowances and benefits in kind	3,826	3,764	2,816		
Discretionary bonuses	3,380	4,300	3,607		
Defined contribution plans	<u>36</u>	<u>40</u>	<u>327</u>		
	<u>7,242</u>	<u>8,104</u>	<u>6,750</u>		
	<u>8,313</u>	<u>9,267</u>	<u>8,630</u>		
	<b>Fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary bonuses</b>	<b>Defined contribution plans</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2016					
Executive directors:					
Wang Tianyi (note (a))	—	2,074	1,900	—	3,974
An Xuesong^	—	1,503	1,480	36	3,019
Chen Dawei (note (b))	<u>—</u>	<u>94</u>	<u>—</u>	<u>—</u>	<u>94</u>
	<u>—</u>	<u>3,671</u>	<u>3,380</u>	<u>36</u>	<u>7,087</u>
Non-executive directors:					
Chen Tao (note (e))	—	—	—	—	—
Yang Zhiqiang (note (f))	<u>—</u>	<u>16</u>	<u>—</u>	<u>—</u>	<u>16</u>
	<u>—</u>	<u>16</u>	<u>—</u>	<u>—</u>	<u>16</u>
Independent non-executive directors:					
Zhai Haitao	322	21	—	—	343
Lim Yu Neng Paul	428	59	—	—	487
Cheng Fong Yee	<u>321</u>	<u>59</u>	<u>—</u>	<u>—</u>	<u>380</u>
	<u>1,071</u>	<u>139</u>	<u>—</u>	<u>—</u>	<u>1,210</u>
	<u>1,071</u>	<u>3,826</u>	<u>3,380</u>	<u>36</u>	<u>8,313</u>

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Defined contribution plans <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2017					
Executive directors:					
Wang Tianyi (note (a))	—	—	—	—	—
An Xuesong^	—	1,502	1,850	40	3,392
Cai Shuguang (note (c))	—	12	—	—	12
Xu Nailing (note (d))	—	12	—	—	12
	<u>—</u>	<u>1,526</u>	<u>1,850</u>	<u>40</u>	<u>3,416</u>
Non-executive directors:					
Wang Tianyi (note (a))	—	2,075	2,450	—	4,525
Chen Tao (note (e))	—	—	—	—	—
Yang Zhiqiang (note (f))	—	12	—	—	12
	<u>—</u>	<u>2,087</u>	<u>2,450</u>	<u>—</u>	<u>4,537</u>
Independent non-executive directors:					
Zhai Haitao	349	23	—	—	372
Lim Yu Neng Paul	465	64	—	—	529
Cheng Fong Yee	349	64	—	—	413
	<u>1,163</u>	<u>151</u>	<u>—</u>	<u>—</u>	<u>1,314</u>
	<u>1,163</u>	<u>3,764</u>	<u>4,300</u>	<u>40</u>	<u>9,267</u>

	<b>Fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary bonuses</b>	<b>Defined contribution plans</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2018					
Executive directors:					
An Xuesong <sup>^</sup>	—	1,862	2,183	298	4,343
Luo Junling (note (h))	—	604	1,424	29	2,057
Cai Shuguang (note (c))	—	12	—	—	12
Xu Nailing (note (d))	—	12	—	—	12
	<u>—</u>	<u>2,490</u>	<u>3,607</u>	<u>327</u>	<u>6,424</u>
Non-executive director:					
Wang Tianyi (note (a))	—	24	—	—	24
Independent non-executive directors:					
Zhai Haitao	465	93	—	—	558
Lim Yu Neng Paul	581	93	—	—	674
Cheng Fong Yee	465	75	—	—	540
Hao Gang (note (g))	369	41	—	—	410
	<u>1,880</u>	<u>302</u>	<u>—</u>	<u>—</u>	<u>2,182</u>
	<u>1,880</u>	<u>2,816</u>	<u>3,607</u>	<u>327</u>	<u>8,630</u>

<sup>^</sup> Mr. An Xuesong was also the chief executive officer of the Group.

Notes:

- (a) Mr. Wang Tianyi was an executive director and the chairman of the Company, and has been re-designated as a non-executive director and the chairman of the Company with effect from 23 February 2017.
- (b) Mr. Chen Dawei resigned as an executive director of the Company with effect from 1 February 2016.
- (c) Mr. Cai Shuguang was appointed as an executive director of the Company with effect from 23 February 2017 and resigned as an executive director of the Company on 10 May 2018.
- (d) Ms. Xu Nailing was appointed as an executive director of the Company with effect from 23 February 2017 and resigned as an executive director of the Company on 10 May 2018.
- (e) Mr. Chen Tao resigned as a non-executive director of the Company with effect from 23 February 2017.
- (f) Mr. Yang Zhiqiang resigned as a non-executive director of the Company with effect from 23 February 2017.
- (g) Ms. Hao Gang was appointed as an independent non-executive director of the Company with effect from 16 March 2018.
- (h) Mr. Luo Junling was appointed as an executive director of the Company with effect from 10 May 2018.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Track Record Periods.

**10. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the years ended 31 December 2016, 2017 and 2018 included two, two and two directors, respectively, details of whose remuneration are set out in note 9 above. Details of the remuneration for the years ended 31 December 2016, 2017 and 2018 of the remaining three, three and three highest paid employee who is neither a director nor chief executive of the Company are as follows:

	<u>Year ended 31 December</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,992	2,233	2,705
Discretionary bonuses	1,256	2,675	2,793
Defined contribution plans	<u>71</u>	<u>140</u>	<u>312</u>
	<u>3,319</u>	<u>5,048</u>	<u>5,810</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	<u>Number of employees</u>		
	<u>Year ended 31 December</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Nil to HK\$1,000,000	1	—	—
HK\$1,000,001 to HK\$1,500,000	2	—	—
HK\$1,500,001 to HK\$2,000,000	<u>—</u>	<u>3</u>	<u>3</u>
	<u>3</u>	<u>3</u>	<u>3</u>

During the Track Record Periods, no emoluments were paid by the Group to the directors of the Company or any of the highest paid employees who are not a director of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

**11. INCOME TAX**

No provision for Singapore and Hong Kong income tax was made as the Group did not earn any income subject to Singapore and Hong Kong income tax during the years ended 31 December 2016, 2017 and 2018.

Tax for the PRC operations is charged at the statutory rate of 25% of the assessable profits under tax rules and regulations in the PRC. During the years ended 31 December 2016, 2017 and 2018, certain



PRC subsidiaries are subject to tax at 50% of the standard rates or fully exempt from income tax under the relevant tax rules and regulations.

	<u>Year ended 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current — PRC:			
Charge for the year	96,212	110,840	139,967
Underprovision/(overprovision) in prior years	(1,380)	3,592	4,156
Deferred (note 28)	<u>70,029</u>	<u>149,380</u>	<u>170,861</u>
Total tax expense for the year	<u>164,861</u>	<u>263,812</u>	<u>314,984</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	<u>Year ended 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	<u>537,476</u>	<u>844,605</u>	<u>1,051,739</u>
Tax calculated at tax rate of 25%	134,369	211,151	262,935
Effect of tax rates in foreign jurisdictions	5,466	25,759	26,550
Tax concession	(14,124)	(12,296)	(24,966)
Adjustments in respect of current tax of previous periods	(1,380)	3,592	4,156
Profits attributable to associates	—	( 26)	(105)
Income not subject to tax	(12,559)	(15,952)	(13,189)
Expenses not deductible for tax	17,090	24,536	8,439
Tax losses not recognised	6,564	7,405	5,005
Tax losses utilised from previous periods	(943)	( 5,897)	(1,397)
Effect of withholding tax on the distributable profits of the			
Group's PRC subsidiaries	21,653	25,540	47,556
Others	<u>8,725</u>	<u>—</u>	<u>—</u>
Tax expense at the Group's effective rate	<u>164,861</u>	<u>263,812</u>	<u>314,984</u>

The share of tax attributable to associates amounting to HK\$198,000 and HK\$58,000 for the years ended 31 December 2017 and 2018, respectively, is included in "Share of profits of associates" in the consolidated statements of comprehensive income.

## 12. DIVIDENDS

	<u>Year ended 31 December</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends attributable to the year:			
Interim — nil, nil and SGD0.0049, respectively, per ordinary share	—	—	74,644
Proposed final — SGD0.0037, SGD0.0049 and SGD0.0050, respectively, per ordinary share	<u>52,344</u>	<u>77,003</u>	<u>77,219</u>
	<u>52,344</u>	<u>77,003</u>	<u>151,863</u>

## 13. EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the Group's profit for the year attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the Track Record Periods.

	<u>Year ended 31 December</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year attributable to equity holders of the Company	<u>349,343</u>	<u>513,356</u>	<u>676,459</u>
	<i>'000</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares in issue during the year	<u>2,605,887</u>	<u>2,618,228</u>	<u>2,644,322</u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Basic and diluted earnings per share	<u>13.4</u>	<u>19.6</u>	<u>25.6</u>

## 14. PROPERTY, PLANT AND EQUIPMENT

## Group

	Buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles and office equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>31 December 2016</b>						
Cost:						
At 1 January 2016	97,841	47,790	4,802	52,602	12,956	215,991
Additions	—	4	3,044	7,816	785	11,649
Disposals	—	—	(441)	(5,231)	—	(5,672)
Disposal of a subsidiary	—	(18)	(64)	(389)	—	(471)
Transfers	2,778	4,269	—	6,300	(13,347)	—
Exchange realignment	(6,613)	(3,353)	(410)	(4,027)	(316)	(14,719)
At 31 December 2016	94,006	48,692	6,931	57,071	78	206,778
Accumulated depreciation:						
At 1 January 2016	14,735	9,462	3,179	32,495	—	59,871
Charge for the year	4,685	2,055	803	7,137	—	14,680
Disposals	—	—	(424)	(4,792)	—	(5,216)
Disposal of a subsidiary	—	(17)	(20)	(146)	—	(183)
Exchange realignment	(1,157)	(716)	(226)	(2,292)	—	(4,391)
At 31 December 2016	18,263	10,784	3,312	32,402	—	64,761
Net carrying amount:						
At 31 December 2016	75,743	37,908	3,619	24,669	78	142,017
At 1 January 2016	83,106	38,328	1,623	20,107	12,956	156,120

Group	Buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles and office equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>31 December 2017</b>						
Cost:						
At 1 January 2017	94,006	48,692	6,931	57,071	78	206,778
Additions	105	24	3,062	6,550	—	9,741
Disposals	—	(18)	(478)	(1,258)	—	(1,754)
Transfers	—	—	80	—	(80)	—
Exchange realignment	5,953	3,083	433	4,511	2	13,982
At 31 December 2017	100,064	51,781	10,028	66,874	—	228,747
Accumulated depreciation:						
At 1 January 2017	18,263	10,784	3,312	32,402	—	64,761
Charge for the year	3,792	2,199	1,822	6,800	—	14,613
Disposals	—	(3)	(248)	(945)	—	(1,196)
Exchange realignment	1,234	750	233	2,288	—	4,505
At 31 December 2017	23,289	13,730	5,119	40,545	—	82,683
Net carrying amount:						
At 31 December 2017	76,775	38,051	4,909	26,329	—	146,064
At 1 January 2017	75,743	37,908	3,619	24,669	78	142,017

Group	Buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles and office equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>31 December 2018</b>						
Cost:						
At 1 January 2018	100,064	51,781	10,028	66,874	—	228,747
Additions	—	34	635	10,507	—	11,176
Acquisition of subsidiaries (note 31)	10,970	—	39	605	—	11,614
Disposals	—	—	(68)	(2,328)	—	(2,396)
Exchange realignment	(5,067)	(2,245)	(361)	(3,276)	—	(10,949)
At 31 December 2018	105,967	49,570	10,273	72,382	—	238,192
Accumulated depreciation:						
At 1 January 2018	23,289	13,730	5,119	40,545	—	82,683
Charge for the year	5,350	2,268	1,724	7,394	—	16,736
Disposals	—	—	(26)	(1,836)	—	(1,862)
Exchange realignment	(1,202)	(702)	(228)	(2,012)	—	(4,144)
At 31 December 2018	27,437	15,296	6,589	44,091	—	93,413
Net carrying amount:						
At 31 December 2018	78,530	34,274	3,684	28,291	—	144,779
At 1 January 2018	76,775	38,051	4,909	26,329	—	146,064

The property ownership certificates of certain buildings of the Group in the PRC (the "Buildings") with aggregate net carrying amounts of HK\$75,743,000, HK\$76,775,000, HK\$22,080,000 as at 31 December 2016, 31 December 2017 and 31 December 2018, respectively, have not yet been issued by the relevant PRC authorities. In the opinion of the directors of the Company, pursuant to the relevant agreements signed with the local government authorities in the PRC and based on the advice from the Company's PRC legal adviser, Zhong Lun Law Firm, the Group has the proper legal rights to occupy and use the Buildings.

## Company

	<b>Motor vehicles and office equipment</b>		
	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At the beginning of the year	24	56	41
Additions during the year	34	—	—
Disposals during the year	—	(15)	—
Exchange realignment	(2)	—	(2)
At the end of the year	<u>56</u>	<u>41</u>	<u>39</u>
Accumulated depreciation:			
At the beginning of the year	21	25	15
Charges for the year	5	7	7
Disposals during the year	—	(15)	—
Exchange realignment	(1)	(2)	(1)
At the end of the year	<u>25</u>	<u>15</u>	<u>21</u>
Net carrying amount:			
At the end of the year	<u>31</u>	<u>26</u>	<u>18</u>
At the beginning of the year	<u>3</u>	<u>31</u>	<u>26</u>

## 15. PREPAID LAND LEASE PAYMENTS

## Group

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at the beginning of the year	6,467	5,954	5,974
Additions during the year	215	—	—
Amortisation provided during the year	(306)	(347)	(357)
Exchange realignment	(422)	367	(245)
Carrying amount at the end of the year	<u>5,954</u>	<u>5,974</u>	<u>5,372</u>

## 16. INTANGIBLE ASSETS

## Group

	Concession rights <i>HK\$'000</i>	Patents and trademarks <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Backlog contracts <i>HK\$'000</i>	Customer relationships <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2016</b>						
Cost:						
At 1 January 2016	1,451,493	26,419	2,418	30,619	—	1,510,949
Additions	—	—	988	—	—	988
Disposal of a subsidiary	(3,385)	—	—	—	—	(3,385)
Exchange realignment	(96,046)	(2,098)	(203)	(2,029)	—	(100,376)
At 31 December 2016	<u>1,352,062</u>	<u>24,321</u>	<u>3,203</u>	<u>28,590</u>	<u>—</u>	<u>1,408,176</u>
Accumulated amortisation:						
At 1 January 2016	53,825	4,687	1,305	11,057	—	70,874
Amortisation provided during the year	71,750	4,224	353	9,963	—	86,290
Exchange realignment	(6,675)	(494)	(102)	(1,166)	—	(8,437)
At 31 December 2016	<u>118,900</u>	<u>8,417</u>	<u>1,556</u>	<u>19,854</u>	<u>—</u>	<u>148,727</u>
Net carrying amount:						
At 31 December 2016	<u>1,233,162</u>	<u>15,904</u>	<u>1,647</u>	<u>8,736</u>	<u>—</u>	<u>1,259,449</u>
At 1 January 2016	<u>1,397,668</u>	<u>21,732</u>	<u>1,113</u>	<u>19,562</u>	<u>—</u>	<u>1,440,075</u>

Group	Concession rights <i>HK\$'000</i>	Patents and trademarks <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Backlog contracts <i>HK\$'000</i>	Customer relationships <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2017</b>						
Cost:						
At 1 January 2017	1,352,062	24,321	3,203	28,590	—	1,408,176
Additions	219,993	—	1,418	—	—	221,411
Exchange realignment	<u>97,288</u>	<u>1,540</u>	<u>246</u>	<u>1,810</u>	<u>—</u>	<u>100,884</u>
At 31 December 2017	<u>1,669,343</u>	<u>25,861</u>	<u>4,867</u>	<u>30,400</u>	<u>—</u>	<u>1,730,471</u>
Accumulated amortisation:						
At 1 January 2017	118,900	8,417	1,556	19,854	—	148,727
Amortisation provided during the year	66,095	4,166	849	9,009	—	80,119
Exchange realignment	<u>9,582</u>	<u>663</u>	<u>125</u>	<u>1,537</u>	<u>—</u>	<u>11,907</u>
At 31 December 2017	<u>194,577</u>	<u>13,246</u>	<u>2,530</u>	<u>30,400</u>	<u>—</u>	<u>240,753</u>
Net carrying amount:						
At 31 December 2017	<u>1,474,766</u>	<u>12,615</u>	<u>2,337</u>	<u>—</u>	<u>—</u>	<u>1,489,718</u>
At 1 January 2017	<u>1,233,162</u>	<u>15,904</u>	<u>1,647</u>	<u>8,736</u>	<u>—</u>	<u>1,259,449</u>



Group	Concession rights <i>HK\$'000</i>	Patents and trademarks <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Backlog contracts <i>HK\$'000</i>	Customer relationships <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2018</b>						
Cost:						
At 1 January 2018	1,669,343	25,861	4,867	30,400	—	1,730,471
Additions	181,095	—	39	—	—	181,134
Acquisition of subsidiaries (note 31)	—	—	65	—	13,573	13,638
Exchange realignment	<u>(84,904)</u>	<u>(1,124)</u>	<u>(218)</u>	<u>(1,321)</u>	<u>(923)</u>	<u>(88,490)</u>
At 31 December 2018	<u>1,765,534</u>	<u>24,737</u>	<u>4,753</u>	<u>29,079</u>	<u>12,650</u>	<u>1,836,753</u>
Accumulated amortisation:						
At 1 January 2018	194,577	13,246	2,530	30,400	—	240,753
Amortisation provided during the year	66,255	4,292	481	—	1,321	72,349
Exchange realignment	<u>(10,294)</u>	<u>(759)</u>	<u>(88)</u>	<u>(1,321)</u>	<u>(56)</u>	<u>(12,518)</u>
At 31 December 2018	<u>250,538</u>	<u>16,779</u>	<u>2,923</u>	<u>29,079</u>	<u>1,265</u>	<u>300,584</u>
Net carrying amount:						
At 31 December 2018	<u>1,514,996</u>	<u>7,958</u>	<u>1,830</u>	<u>—</u>	<u>11,385</u>	<u>1,536,169</u>
At 1 January 2018	<u>1,474,766</u>	<u>12,615</u>	<u>2,337</u>	<u>—</u>	<u>—</u>	<u>1,489,718</u>

As at 31 December 2016, 2017 and 2018, certain of the Group's concession rights of the environmental water projects (comprising concession rights, service concession financial receivables and trade receivables) with aggregate carrying amounts of HK\$2,459,562,000, HK\$4,362,784,000 and HK\$4,426,064,000, respectively, were pledged to secure banking facilities granted to the Group, further details of which are included in notes 26 and 33.

#### Impairment testing of concession rights not yet available for use

As at 31 December 2017 and 2018, certain projects had not commenced operations and the carrying amounts of the concession rights not yet available for use of these projects were approximately HK\$227 million and HK\$390 million, respectively. The recoverable amount of each of these concession rights was determined based on value-in-use calculations using cashflow projections based on a financial budget covering a five-year period approved by the management. Management determined the budgets based on the service concession arrangements governing the relevant operations. The pre-tax discount rates applied to the cashflow projections were 10.6% for 2017 and 10.2% for 2018, and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. The discount rates used are pre-tax and reflect specific risks relating to the relevant operations. No

impairment is considered necessary as at 31 December 2017 and 2018. Management believes that any reasonably possible changes to the key assumptions applied is not likely to lead to any impairment of the concession rights not yet available for use.

The sensitivity analysis below has been determined based on the exposure to the pre-tax discount rate and five-year period growth rate, representing the key inputs to the determination of the recoverable amount.

The headroom of the concession rights not yet available for use is shown as below:

	<b>As at</b> <b><u>31 December</u></b>	<b>As at</b> <b><u>31 December</u></b>
	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Headroom	32,000	63,000

Had the estimated key assumptions been changed as below, the headroom would be increased/ (decreased) by:

	<b>As at</b> <b><u>31 December</u></b>	<b>As at</b> <b><u>31 December</u></b>
	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Pre-tax discount rate decreased by 0.2%	25,000	26,000
Pre-tax discount rate increased by 0.2%	(24,000)	(24,000)
Five-year period growth rate increased by 5%	2,000	2,000
Five-year period growth rate decreased by 5%	(2,000)	(2,000)

A respective increase in the discount rate from the original rate of 10.6% and 10.2% by 0.3% and 0.5% to 10.9% and 10.7%, respectively, as at 31 December 2017 and 2018, would remove the remaining headroom. Even if the five-year period growth rate decreased to 0%, the recoverable amount of the concession rights not yet available for use would still exceed its carrying value.

## 17. GOODWILL

## Group

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost and net carrying amount at the beginning of the year	1,268,925	1,185,478	1,259,922
Acquisition of subsidiaries (note 31)	—	—	39,835
Exchange realignment	<u>( 83,447)</u>	<u>74,444</u>	<u>(57,044)</u>
Cost and net carrying amount at the end of the year	<u>1,185,478</u>	<u>1,259,922</u>	<u>1,242,713</u>

The goodwill arising from the acquisitions is attributable mainly to the expected synergies from combining operations of the acquiree and acquirer. None of the goodwill acquired is expected to be deductible for tax purposes.

Impairment testing of goodwill

For the purpose of impairment testing, goodwill has been allocated to the water environment management segment as at 31 December 2016, 2017 and 2018.

The recoverable amount of the water environment management segment as at 31 December 2016 was based on fair value less costs of disposal.

The Group's testing approach adopted as at 31 December 2016 included a comparison of its market capitalisation with the Group's net assets, which represented the net assets of the water environment management segment. Under this approach, the market capitalisation is the fair value of the water environment management segment. Costs of disposal were assessed as insignificant. The market capitalisation was categorised as a Level 1 fair value measurement, and was calculated based on the share price of the Company of SGD0.500 (equivalent to HK\$2.677) as at 31 December 2016 quoted on the Singapore Exchange Securities Trading Limited.

Under this approach, the estimated recoverable amount exceeded the carrying amount and the Group concluded that the goodwill was not impaired at 31 December 2016.

The sensitivity analysis below has been determined based on the exposure to the share price of the Company quoted on the Singapore Exchange Securities Trading Limited, representing the key input to the determination of the market capitalisation.

The headroom of the Group of cash-generating units within the water environment management segment is shown as below:

	<b>As at 31 December 2016</b>
	<b>HK\$'000</b>
Headroom	189,000

Had the key assumption been changed as below, the headroom would be increased/ (decreased) by:

	<b>As at 31 December 2016</b>
	<b>HK\$'000</b>
Share price increased by SGD 0.01	140,000
Share price decreased by SGD 0.01	(140,000)

As at 31 December 2017 and 2018, due to the decrease of the share price of the Company compared to 31 December 2016, the water environment management segment's recoverable amount calculated based on the fair value less costs of disposal was lower than its value in use. As the recoverable amount is determined based on the higher of the fair value less costs of disposal and value in use under IAS 36, the basis of determining the recoverable amount as at 31 December 2017 and 2018 was changed to the value in use method.

The recoverable amount of the group of cash-generating units within the water environment management segment as at 31 December 2017 and 2018 was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period using a growth rate of 6% to 10% approved by management. The pre-tax discount rates applied to the cash flow projections were 11.5% for 2017 and 11.2% for 2018, and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. Management determined the budgets based on service concession arrangements governing the relevant operations. Based on the assessment, no impairment provision was necessary as at 31 December 2017 and 2018. Management believes that any reasonably possible changes to the key assumptions applied would not lead to impairment of goodwill as at 31 December 2017 and 2018.

The sensitivity analysis below has been determined based on the exposure to the pre-tax discount rate and five-year period growth rate, representing the key inputs to the determination of the recoverable amount.

The headroom of the Group of cash-generating units within the water environment management segment is shown as below:

	As at 31 December 2017	As at 31 December 2018
	HK\$'000	HK\$'000
Headroom	500,000	4,459,000

Had the estimated key assumptions been changed as below, the headroom would be increased/ (decreased) by:

	As at 31 December 2017	As at 31 December 2018
	HK\$'000	HK\$'000
Pre-tax discount rate increased by 0.2%	(329,000)	(424,000)
Pre-tax discount rate decreased by 0.2%	341,000	439,000
Five-year period growth rate increased by 5%	283,000	384,000
Five-year period growth rate decreased by 5%	(283,000)	(381,000)

A respective increase in the discount rate from the original rate of 11.5% and 11.2% by 0.3% and 2.5% to 11.8% and 13.7%, respectively; or a decrease in the five-year period growth rate by 9% and 61% of the original five-year period growth rate respectively, as at 31 December 2017 and 2018, would remove the remaining headroom.

## 18. INTERESTS IN ASSOCIATES

### Group

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Share of net assets	<u>1,327</u>	<u>1,445</u>	<u>3,011</u>

Particulars of the Group's associates during the Track Record Periods are as follows:

<b>Name</b>	<b>Particulars of capital</b>	<b>Place of registration and business</b>	<b>Percentage of ownership interest attributable to the Group</b>	<b>Principal activities</b>
Qingdao Haibohe (note (a))	Paid up capital of US\$350,845	PRC/ Mainland China	49	Waste water treatment
Hebei Xiong'an Huashen Water Engineering Technology Limited ("Hebei Xiong'an") (note (b))	Paid up capital of RMB5,000,000	PRC/ Mainland China	20	R&D and consultation on water treatment

Notes:

- (a) During the year ended 31 December 2016, the Group disposed of a partial equity interest in Qingdao Haibohe to Qingdao Water Group Co., Ltd (the "Transfer"). Upon completion of the Transfer, the Group's equity interest in Qingdao Haibohe was reduced from 99% to 49%. After the Transfer, the Group has significant influence, but not control or joint control, over Qingdao Haibohe, including participation in the financial and operating policy decisions, pursuant to the Articles of Association of Qingdao Haibohe. Accordingly, Qingdao Haibohe is classified as an associate of the Group after the Transfer. The Group recognised a gain of HK\$402,000 in other income during the year ended 31 December 2016.

Qingdao Haibohe provides services to the Madao Waste Water Treatment Plant and Haibohe Waste Water Treatment Plant in Qingdao.

- (b) During the year ended 31 December 2018, the Group made a capital contribution of RMB1,000,000 (equivalent to HK\$1,168,000) to Hebei Xiong'an. Hebei Xiong'an is established with three entities established in the PRC, which enables the Group to further develop R&D and construction services in Xiong'an City.

The Group has significant influence, but not control or joint control, over Hebei Xiong'an, including participation in the financial and operating policy decisions, pursuant to the Articles of Association of Hebei Xiong'an. Accordingly, Hebei Xiong'an is classified as an associate of the Group.

As at 31 December 2016, 2017 and 2018, the above investments were held by the Company's subsidiaries.

## 19. INTERESTS IN SUBSIDIARIES

## Company

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	10,985,487	12,294,429	11,760,204
Amounts due from subsidiaries	<u>2,426,051</u>	<u>3,893,998</u>	<u>3,274,536</u>
	13,411,538	16,188,427	15,034,740
Impairment <sup>#</sup>	<u>(4,220,965)</u>	<u>(4,488,176)</u>	<u>(4,293,153)</u>
	<u>9,190,573</u>	<u>11,700,251</u>	<u>10,741,587</u>

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. The balances are considered by the directors as quasi-equity investments in these subsidiaries.

Movements in the provision for impairment are as follows:

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	4,520,491	4,220,965	4,488,176
Exchange realignment	<u>(299,526)</u>	<u>267,211</u>	<u>(195,023)</u>
At the end of the year	<u>4,220,965</u>	<u>4,488,176</u>	<u>4,293,153</u>

<sup>#</sup> As at 31 December 2016, 2017 and 2018, impairment in aggregate of HK\$4,220,965,000, HK\$4,488,176,000 and HK\$4,293,153,000, respectively, was recognised for the unlisted interests in subsidiaries with respective carrying amounts in aggregate of HK\$10,386,200,000, HK\$11,043,708,000 and HK\$10,563,830,000 (before deducting the impairment) because the recoverable amounts of these subsidiaries were lower than their carrying amounts.

Particulars of the subsidiaries are disclosed in note 1 to the Historical Financial Information.

## 20. SERVICE CONCESSION FINANCIAL RECEIVABLES

## Group

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Gross amounts due from customers for contract work	5,393,208	7,189,327	8,677,810
Other receivables related to service concession arrangements	3,578,133	4,324,936	4,474,173
	8,971,341	11,514,263	13,151,983
Less: Non-current portion	(8,179,732)	(10,313,724)	(11,727,822)
Current portion	<u>791,609</u>	<u>1,200,539</u>	<u>1,424,161</u>
Contract costs incurred plus recognised profits less anticipated losses	7,813,845	10,340,120	12,891,494
Less: Progress billings	(2,420,637)	(3,150,793)	(4,213,684)
Net contract work	<u>5,393,208</u>	<u>7,189,327</u>	<u>8,677,810</u>
Representing:			
Gross amounts due from customers for contract work	<u>5,393,208</u>	<u>7,189,327</u>	<u>8,677,810</u>

Included in "Service concession financial receivables" as at 31 December 2016, 2017 and 2018 are amounts of HK\$402,996,000, HK\$589,969,000 and HK\$582,215,000, respectively, which are due from a non-controlling shareholder of a non-wholly-owned subsidiary, and amounts of HK\$593,009,000, HK\$617,792,000 and HK\$603,995,000, respectively, which are due from a related company.

Service concession financial receivables as at 31 December 2016, 2017 and 2018 totalling HK\$8,971,341,000, HK\$11,514,263,000 and HK\$13,151,983,000, respectively, bear interest at rates ranging from 4.90% to 7.83%, 4.90% to 7.83% and 4.90% to 7.83%, respectively, per annum. As at 31 December 2016, 2017 and 2018, HK\$4,377,005,000, HK\$4,616,531,000 and HK\$5,443,224,000, respectively, related to the service concession arrangements with operation commenced. The amounts for the service concession arrangements are not yet due for payment and will be settled by revenue to be generated during the operating periods of the service concession arrangements. Amounts billed will be transferred to trade receivables (note 22). No impairment loss was recognised by the Group at 31 December 2016, 2017 and 2018 in respect of the service concession financial receivables.

As at 31 December 2016, 2017 and 2018, certain of the Group's concession rights of the environmental water projects (comprising concession rights, service concession financial receivables and trade receivables) with aggregate carrying amounts of HK\$2,459,562,000, HK\$4,362,784,000 and HK\$4,426,064,000, respectively, were pledged to secure banking facilities granted to the Group, further details of which are included in notes 26 and 33.



**Group**

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsatisfied performance obligations related to service concession arrangements:			
Expected to be recognised within one year	3,513,679	4,248,695	4,827,359
Expected to be recognised after one year	<u>28,706,868</u>	<u>25,966,109</u>	<u>39,482,401</u>
Total transaction price allocated to the unsatisfied performance obligations	<u><u>32,220,547</u></u>	<u><u>30,214,804</u></u>	<u><u>44,309,760</u></u>

Included in the revenue recognised in each of the years ended 31 December 2016, 2017 and 2018, nil, nil and HK\$75,101,000, respectively, were related to performance obligations satisfied in previous periods.

Included in "Intangible assets" of the Group (note 16) as at 31 December 2016, 2017 and 2018 are contract assets of nil, HK\$226,832,000 and HK\$390,347,000, respectively, arising from performance under construction contracts in connection with service concession arrangements.

**21. INVENTORIES****Group**

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials and consumables	<u>14,323</u>	<u>14,342</u>	<u>40,436</u>

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of inventories consumed	<u>157,733</u>	<u>214,766</u>	<u>549,349</u>

## 22. TRADE AND OTHER RECEIVABLES

## Group

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current</b>			
Trade receivables	—	—	50,216
VAT receivable	—	—	92,341
Other receivables	9,863	10,515	10,518
Amount due from an associate	—	—	4,029
	<u>9,863</u>	<u>10,515</u>	<u>157,104</u>
Contingent consideration receivable	—	—	2,155
	<u>9,863</u>	<u>10,515</u>	<u>159,259</u>
<b>Current</b>			
Trade receivables	429,595	413,777	720,953
Less: Impairment	—	—	(49,888)
	<u>429,595</u>	<u>413,777</u>	<u>671,065</u>
VAT receivable	23,072	113,054	131,658
Other receivables and sundry deposits	61,229	127,304	90,918
Prepayments	<u>74,843</u>	<u>151,724</u>	<u>125,017</u>
	<u>588,739</u>	<u>805,859</u>	<u>1,018,658</u>
Contingent consideration receivable	—	—	6,386
	<u>588,739</u>	<u>805,859</u>	<u>1,025,044</u>
Total	<u>598,602</u>	<u>816,374</u>	<u>1,184,303</u>

## Company

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from subsidiaries	2,096,933	1,834,010	3,660,270
Prepayments	—	—	3,156
Total	<u>2,096,933</u>	<u>1,834,010</u>	<u>3,663,426</u>

The amount due from an associate as at 31 December 2018 is unsecured, interest-bearing at a rate of 4.75% per annum and repayable in 2020.

The amounts due from subsidiaries of the Company as at 31 December 2016, 2017 and 2018 are unsecured, interest free and repayable on demand.

The movements in provision for impairment of trade receivables are as follows:

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	—	—	—
Effect on adoption of IFRS 9 (note 2.2)	—	—	35,669
Impairment losses recognised (note 8)	—	—	16,664
Exchange realignment	—	—	<u>(2,445)</u>
At the end of the year	<u>—</u>	<u>—</u>	<u>49,888</u>

Included in "Trade and other receivables" are trade receivables, that are not individually nor collectively considered to be impaired, with the following ageing analysis as at the end of the reporting period:

#### Group

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	<u>183,956</u>	<u>222,142</u>	<u>367,987</u>
Past due:			
— 1 to 30 days	54,864	40,250	21,844
— 31 to 90 days	35,520	32,578	73,100
— 91 to 180 days	43,749	13,685	133,978
— 181 to 365 days	54,314	25,391	54,511
— more than 1 year but within 2 years	48,800	74,860	38,851
— over 2 years	<u>8,392</u>	<u>4,871</u>	<u>31,010</u>
Amounts past due	<u>245,639</u>	<u>191,635</u>	<u>353,294</u>
	<u>429,595</u>	<u>413,777</u>	<u>721,281</u>

The ageing analysis of debtors, based on the date of invoice (or date of revenue recognition, if earlier) and net of provision, as at the end of the reporting period is as follows:

**Group**

	<u>As at 31 December</u>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	136,123	181,695	295,894
More than 1 month but within 2 months	55,416	42,944	67,763
More than 2 months but within 4 months	41,075	41,440	67,071
More than 4 months but within 7 months	42,866	16,610	147,661
More than 7 months but within 13 months	50,002	56,023	53,203
More than 13 months	104,113	75,065	89,689
	<u>429,595</u>	<u>413,777</u>	<u>721,281</u>

Trade receivables are due within 30 to 90 days from the date of billing. During the year ended 31 December 2018, certain local government authorities agreed repayment schedules for the Group's trade receivables past due of HK\$50,216,000 to be settled by instalments from 2020 to 2021. Further details on the Group's credit policy are set out in note 39.

Trade receivables mainly represent revenue from the provision of operation services and the billed amounts of the service concession financial receivables. There was no recent history of default in respect of the Group's trade receivables. Since most of the debtors are local government authorities in the PRC and based on past experience, management, based on IAS 39's incurred loss approach, believes that no impairment allowance is necessary as at 31 December 2016 and 2017 in respect of the past due balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

From 1 January 2018, the Group has applied the simplified approach to providing impairment for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs below also incorporate forward looking information. The impairment as of 31 December 2018 is determined as follows:

	<b>Current</b>	<b>Past due within 1 year</b>	<b>Past due 1 year but within 2 years</b>	<b>Past due more than 2 years over 2 years</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>31 December 2018:</b>					
Expected loss rate	0%	3%	12%	53%	6%
Gross carrying amount	367,987	293,083	43,907	66,192	771,169
Impairment	—	9,650	5,056 <sup>^</sup>	35,182 <sup>*</sup>	49,888

- ^ The impairment included an amount of HK\$1,628,000 made for specific trade receivables which were considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amounts in full.
- \* The impairment included an amount of HK\$33,164,000 made for specific trade receivables which were considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amounts in full.

Included in "Trade and other receivables" of the Group as at 31 December 2016, 2017 and 2018 are trade receivables of HK\$429,595,000, HK\$413,777,000 and HK\$721,281,000, respectively, of which HK\$19,600,000, HK\$20,456,000 and HK\$148,663,000, respectively, are due from a non-controlling shareholder of a non-wholly-owned subsidiary, HK\$10,546,000, HK\$10,937,000 and HK\$10,612,000, respectively, are due from a related company, and nil, nil and HK\$51,960,000, respectively, are due from fellow subsidiaries.

Included in "Trade and other receivables" of the Group as at 31 December 2018 is contingent consideration receivable of HK\$8,541,000 in relation to the acquisition of Xuzhou Engineering Design Institute (note 31) during the year ended 31 December 2018. The contingent consideration receivable constitutes a derivative within the scope of IFRS 9, and is recognised at its fair value as asset on initial recognition and is subsequently remeasured at fair value with changes in fair value recognised in profit or loss.

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	—	—	—
Additions (note 31)	—	—	5,643
Fair value gain recognised in profit or loss (note 6)	—	—	3,428
Exchange realignment	—	—	( 530)
At the end of the year	—	—	8,541
Portion classified as current assets	—	—	(6,386)
Non-current portion	—	—	2,155

Details of the fair value disclosure of the contingent consideration receivable as at 31 December 2018 are set out in note 37.

Included in "Other receivables and sundry deposits" of the Group as at 31 December 2016, 2017 and 2018 are consideration receivables of HK\$29,790,000, HK\$29,657,000 and HK\$23,939,000, respectively, due from third parties arising from the disposals of service concession rights held by Suqian City Cheng Bei Water Treatment Co., Ltd. and Suqian City Cheng Bei Wastewater Treatment Co., Ltd., and the ageing of which is as follows:

**Group**

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	<u>13,591</u>	<u>12,433</u>	<u>10,871</u>
Past due:			
— within 1 year	4,841	—	—
— more than 1 year but within 2 years	4,841	5,147	4,923
— over 2 years	<u>6,517</u>	<u>12,077</u>	<u>8,145</u>
Amounts past due	<u>16,199</u>	<u>17,224</u>	<u>13,068</u>
	<u>29,790</u>	<u>29,657</u>	<u>23,939</u>

Included in "Prepayments" of the Group as at 31 December 2016, 2017 and 2018 is prepayment of HK\$33,504,000, nil and nil, respectively, to a non-controlling shareholder of a non-wholly-owned subsidiary for construction related works.

As at 31 December 2016, 2017 and 2018, certain of the Group's concession rights of the environmental water projects (comprising concession rights, service concession financial receivables and trade receivables) with aggregate carrying amounts of HK\$2,459,562,000, HK\$4,362,784,000 and HK\$4,426,064,000, respectively, were pledged to secure banking facilities granted to the Group, further details of which are included in notes 26 and 33.

All of the current portions of the above balances are expected to be recovered or recognised as expenses within one year.

**23. FIXED DEPOSITS WITH MATURITY PERIOD OVER THREE MONTHS****Group**

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Pledged bank deposits	543,340	547,278	547,050
Fixed deposit	—	<u>83,125</u>	—
	<u>543,340</u>	<u>630,403</u>	<u>547,050</u>

Deposits with banks with original maturity of more than three months are not included in cash and cash equivalents.

As at 31 December 2016, 2017 and 2018, bank deposits were pledged to secure certain bank and other loans of the Group (note 26).

Pledged bank deposits earn interest at the respective time deposit rates, and are deposited with a creditworthy bank with no recent history of default.

As at 31 December 2018, pledged bank deposits of the Group were considered to be of low credit risk, and thus the Group has assessed that the ECL for pledged deposits is immaterial under the 12-month expected losses method.

As at 31 December 2017, the fixed deposit of HK\$83,125,000 had a maturity period of 180 days from the date of acquisition. The balance was principal-protected and carried the expected rate of return of 3.8% per annum.

#### 24. CASH AND CASH EQUIVALENTS

##### Group

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash on hand and bank balances	1,359,401	2,074,414	1,706,871
Restricted balances in financial institutions	—	95,000	—
Pledged bank deposits	—	—	21,702
	<u>1,359,401</u>	<u>2,169,414</u>	<u>1,728,573</u>

##### Company

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash on hand and bank balances	<u>30,716</u>	<u>27,783</u>	<u>31,661</u>

As at 31 December 2017, the restricted balances in financial institutions had a maturity period of 21 days from the date of acquisition. The balances were principal-protected and carried the expected rate of return of 4.4% per annum.

As at 31 December 2018, the pledged bank deposits are pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance duties by the Group under certain service concession agreements.

Included in "Cash and cash equivalents" of the Group as at 31 December 2016, 2017 and 2018 are deposits of HK\$185,000, HK\$5,597,000 and HK\$6,926,000, respectively, placed with a related party bank, which is a fellow subsidiary of the Company.

As at 31 December 2016, 2017 and 2018, the cash and cash equivalents of the Group denominated in RMB amounted to HK\$1,210,199,000, HK\$2,018,696,000 and HK\$1,687,447,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2018, cash and cash equivalents of the Group and the Company were considered to be of low credit risk, and thus the Group has assessed that the ECL for cash and cash equivalents is immaterial under the 12-month expected losses method.

## 25. TRADE AND OTHER PAYABLES

### Group

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Trade payables	500,870	1,132,040	1,472,377
Amounts due to fellow subsidiaries	150,182	—	—
Amounts due to intermediate holding companies	78,336	—	4
Dividend payable to a non-controlling shareholder of a non-wholly-owned subsidiary	—	22,444	28,583
Interest payable	6,467	43,963	64,776
Payable for acquisition	—	—	14,994
VAT and other tax payables	21,749	39,261	42,541
Other creditors and accrued expenses	179,634	315,857	271,820
Total	<u>937,238</u>	<u>1,553,565</u>	<u>1,895,095</u>



**Company**

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due to subsidiaries	345	105,889	26,936
Interest payable	6,429	43,805	62,912
Other creditors and accrued expenses	<u>13,881</u>	<u>5,837</u>	<u>12,153</u>
Total	<u>20,655</u>	<u>155,531</u>	<u>102,001</u>

Included in "Trade and other payables" are trade payables with the following ageing analysis based on the date of invoice as at the end of the reporting period:

**Group**

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 6 months	355,949	984,111	1,219,776
Over 6 months	<u>144,921</u>	<u>147,929</u>	<u>252,601</u>
	<u>500,870</u>	<u>1,132,040</u>	<u>1,472,377</u>

Trade payables totalling HK\$411,797,000, HK\$982,950,000 and HK\$1,231,468,000 as at 31 December 2016, 2017 and 2018 represent construction payables for the Group's BOT and certain BOO arrangements, of which HK\$1,117,000, HK\$1,188,000 and HK\$1,136,000 is due to a non-controlling shareholder of a non-wholly-owned subsidiary. The construction payables are not yet due for payment.

Included in "Trade payables" of the Group as at 31 December 2016, 2017 and 2018 are trade payables of HK\$1,555,000, HK\$7,116,000 and HK\$6,940,000, respectively, due to an associate, which are unsecured, interest free and repayable on credit terms similar to those offered by the associate to its major customers.

Included in "Other creditors and accrued expenses" of the Group as at 31 December 2016, 2017 and 2018 is a guarantee deposit of HK\$14,249,000, HK\$14,144,000 and HK\$14,230,000, respectively, from a former director of a subsidiary.

Included in "Amounts due to intermediate holding companies" of the Group as at 31 December 2016 are balance of HK\$56,000,000, which bear interest at a rate of HIBOR+2.5% per annum, and balance of HK\$22,336,000, which bear interest at a rate of 93% of the rates announced by the People's Bank of China. The amounts due to intermediate holding companies of the Group as at 31 December 2016 are unsecured and repayable by 2017.

The amounts due to intermediate holding companies of the Group as at 31 December 2018 are unsecured, interest free and repayable on demand.

The amounts due to fellow subsidiaries of the Group as at 31 December 2016 are unsecured, interest-bearing at the rates announced by the People's Bank of China and repayable by 2017.

The amounts due to subsidiaries of the Company as at 31 December 2016, 2017 and 2018 are unsecured, interest free and repayable on demand.

## 26. BORROWINGS

## Group

	As at 31 December 2016		As at 31 December 2017		As at 31 December 2018	
	Maturity	HK\$'000	Maturity	HK\$'000	Maturity	HK\$'000
<b>Non-current</b>						
Bank and other loans — secured	2019-2025	2,281,066	2019-2032	2,458,680	2020-2032	1,453,818
Bank loans — unsecured	2018-2026	1,085,025	2019-2038	1,088,315	2020-2038	1,951,154
Corporate bonds — unsecured (note 27)	—	—	2022	1,181,035	2022-2023	2,035,404
		<u>3,366,091</u>		<u>4,728,030</u>		<u>5,440,376</u>
<b>Current</b>						
Bank and other loans — secured	2017	116,715	2018	248,881	2019	1,062,132
Bank loans — unsecured	2017	1,404,692	2018	1,654,841	2019	1,098,268
		<u>1,521,407</u>		<u>1,903,722</u>		<u>2,160,400</u>
		<u>4,887,498</u>		<u>6,631,752</u>		<u>7,600,776</u>

Company	As at 31 December 2016		As at 31 December 2017		As at 31 December 2018	
	Maturity	HK\$'000	Maturity	HK\$'000	Maturity	HK\$'000
<b>Non-current</b>						
Bank loans — secured	2025	1,010,515	2025	896,655	2025	775,150
Bank loans — unsecured	2018	193,177	—	—	2021	701,032
Corporate bonds — unsecured (note 27)	—	—	2022	1,181,035	2022-2023	2,035,404
		<u>1,203,692</u>		<u>2,077,690</u>		<u>3,511,586</u>
<b>Current</b>						
Bank loans — secured	2017	58,312	2018	121,183	2019	121,132
Bank loans — unsecured	2017	698,580	2018	1,235,219	2019	932,187
		<u>756,892</u>		<u>1,356,402</u>		<u>1,053,319</u>
		<u>1,960,584</u>		<u>3,434,092</u>		<u>4,564,905</u>

**Group**

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed into:			
Bank loans repayable:			
Within one year or on demand	1,516,404	1,898,402	1,663,126
In the second year	596,647	1,084,057	601,391
In the third to fifth years, inclusive	1,645,615	1,112,248	2,010,762
Beyond five years	<u>629,913</u>	<u>830,826</u>	<u>792,819</u>
	<u>4,388,579</u>	<u>4,925,533</u>	<u>5,068,098</u>
Other loans repayable:			
Within one year or on demand	5,003	5,320	497,274
In the second year	5,003	519,864	—
In the third to fifth years, inclusive	<u>488,913</u>	<u>—</u>	<u>—</u>
	<u>498,919</u>	<u>525,184</u>	<u>497,274</u>
Corporate bond repayable (note):			
In the second year	—	—	1,131,070
In the third to fifth years, inclusive	<u>—</u>	<u>1,181,035</u>	<u>904,334</u>
	<u>—</u>	<u>1,181,035</u>	<u>2,035,404</u>
Total	<u><u>4,887,498</u></u>	<u><u>6,631,752</u></u>	<u><u>7,600,776</u></u>

**Company**

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed into:			
Bank loans repayable:			
Within one year or on demand	756,892	1,356,402	1,053,319
In the second year	313,488	121,183	119,019
In the third to fifth years, inclusive	360,933	363,548	1,066,543
Beyond five years	<u>529,271</u>	<u>411,924</u>	<u>290,620</u>
	<u>1,960,584</u>	<u>2,253,057</u>	<u>2,529,501</u>
Corporate bond repayable (note):			
In the second year	—	—	1,131,070
In the third to fifth years, inclusive	<u>—</u>	<u>1,181,035</u>	<u>904,334</u>
	<u>—</u>	<u>1,181,035</u>	<u>2,035,404</u>
Total	<u><u>1,960,584</u></u>	<u><u>3,434,092</u></u>	<u><u>4,564,905</u></u>

*Note:* For the purpose of the above analysis, the corporate bond payable in the amount of HK\$1,181,035,000 and HK\$2,035,404,000 as at 31 December 2017 and 2018, respectively, and containing an option to sell back the bond to the Company which is exercisable after three years from the issuance date (note 27) is analysed as to HK\$1,181,035,000 repayable within the third to fifth years, inclusive as at 31 December 2017, and HK\$1,131,070,000 repayable within the second year and HK\$904,334,000 repayable within the third to fifth years, inclusive as at 31 December 2018.

The corporate bond payable at 31 December 2017 and 2018 will be due for repayment on the respective maturity dates (note 27) unless being sold back to the Company prior to the maturity pursuant to the terms of the Corporate Bond (as defined in note 27). Based on the maturity terms of the Corporate Bond (as defined in note 27), the amounts repayable in respect of the corporate bond payable are: HK\$1,181,035,000 repayable within the third to fifth years, inclusive as at 31 December 2017, and HK\$2,035,404,000 repayable within the third to fifth years, inclusive as at 31 December 2018.

Certain banking facilities and other loans of the Group are secured by certain revenue, receivables and intangible assets in connection with the Group's service concession arrangements, and bank deposits. Such bank loan facilities and other loans, amounting to HK\$2,554,133,000, HK\$2,924,874,000 and HK\$2,754,489,000 as at 31 December 2016, 2017 and 2018, respectively, were utilised to the extent of HK\$2,397,781,000, HK\$2,707,561,000 and HK\$2,515,950,000, respectively. Among the secured banking facilities, HK\$522,662,000, HK\$352,157,000 and HK\$309,593,000 are guaranteed by the Company as at 31 December 2016, 2017 and 2018, respectively, and were utilised to the extent of HK\$522,662,000, HK\$352,157,000 and HK\$309,593,000 as at 31 December 2016, 2017 and 2018, respectively.

The unsecured bank loan facilities, amounting to HK\$4,398,347,000, HK\$4,589,334,000 and HK\$6,793,701,000 as at 31 December 2016, 2017 and 2018, respectively, were utilised to the extent of HK\$2,489,717,000, HK\$2,743,156,000 and HK\$3,049,422,000 respectively. Among the unsecured banking facilities of the Group, HK\$1,536,736,000, HK\$949,610,000 and HK\$1,067,055,000 are guaranteed by the Company as at 31 December 2016, 2017 and 2018, respectively, and were utilised to the extent of HK\$915,776,000, HK\$866,485,000 and HK\$830,409,000 as at 31 December 2016, 2017 and 2018, respectively.

Bank loan facilities of HK\$3,237,392,000, HK\$3,377,205,000 and HK\$5,233,720,000 as at 31 December 2016, 2017 and 2018, respectively, are subject to the fulfilment of covenants relating to certain of the Group's financial ratios. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. At 31 December 2016, 2017 and 2018, such facilities were utilised to the extent of HK\$2,616,432,000, HK\$2,878,162,000 and HK\$3,772,447,000, respectively. The Group regularly monitors its compliance with these covenants. Certain banking facilities also restrict some of the Company's subsidiaries from declaring or paying dividends to shareholders without obtaining prior written approval of the banks or require the Group to process waste water treatment operating fee via respective financial institutions. Further details of the Group's management of liquidity risk are set out in note 39.

The Group's bank and other loans of HK\$498,919,000, HK\$525,184,000 and HK\$497,274,000 as at 31 December 2016, 2017 and 2018, respectively, bear interest at fixed rates ranging from 2.88% to 2.90%, 2.88% to 2.90% and 2.88% to 2.90% per annum, bank loans of HK\$4,388,579,000, HK\$4,925,533,000 and

HK\$5,068,098,000 as at 31 December 2016, 2017 and 2018, respectively, bear interest at variable rates ranging from 2.20% to 6.00%, 2.60% to 4.90% and 2.95% to 5.02% per annum, and corporate bond payable of HK\$1,181,035,000 and HK\$2,035,404,000 as at 31 December 2017 and 2018, respectively, bears interest at a fixed rate of 4.55% per annum and fixed rates ranging from 4.55% to 4.60% per annum.

The Group's bank and other loans of HK\$1,960,584,000, HK\$1,916,057,000 and HK\$1,052,583,000 as at 31 December 2016, 2017 and 2018, respectively, are denominated in US\$, HK\$2,926,914,000, HK\$2,966,487,000 and HK\$2,309,585,000 as at 31 December 2016, 2017 and 2018, respectively, are denominated in RMB, and nil, HK\$568,173,000 and HK\$2,203,204,000 as at 31 December 2016, 2017 and 2018, respectively, are denominated in Hong Kong dollars.

Included in "Borrowings" as at 31 December 2016, 2017 and 2018 are loans of HK\$32,499,000, nil and nil, respectively, from a related party bank, which is a fellow subsidiary of the Company. The loans from a related party bank as at 31 December 2016 were unsecured, interest-bearing at rates announced by the People's Bank of China and would be settled by instalments until 2018.

## 27. CORPORATE BONDS

### Group and Company

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current</b>			
Corporate bonds — unsecured	—	<u>1,181,035</u>	<u>2,035,404</u>

On 21 July 2017, the Company entered into an underwriting agreement with the relevant financial institution in relation to the issue of RMB-denominated corporate bonds with an aggregate principal amount of not exceeding RMB2.5 billion (the "Corporate Bond") to the qualified investors in the PRC.

On 24 July 2017 (the "First Issue Date"), the Company issued the first tranche of the Corporate Bond with principal amount of RMB1 billion, before related expenses of RMB5,964,000, with a maturity period of five years from the First Issue Date. The first tranche of the Corporate Bond bears interest at a rate of 4.55% per annum and the interest will be repayable by the Company annually from the First Issue Date and up to the maturity date. According to the terms of the Corporate Bond, after three years from the First Issue Date, the Company is entitled to adjust the interest rate of the first tranche of the Corporate Bond for the remaining two years before the maturity date. The Company will announce the adjustment in interest rate, if any, 20 working days prior to the payment of the interest for the third year after the First Issue Date. The bondholders have an option to sell back the first tranche of the Corporate Bond to the Company at the nominal price, and the exercisable period of this option is five working days immediately after the issuance of the Company's announcement related to the adjustment in interest rate of the first tranche of the Corporate Bond.

On 16 August 2018 (the "Second Issue Date"), the Company issued the second tranche of the Corporate Bond with principal amount of RMB800 million, before related expenses of RMB4,171,000, with a maturity period of five years from the Second Issue Date. The second tranche of the Corporate Bond comprises two types of bonds: (i) bonds with principal amount of RMB400 million which bear interest at a rate of 4.60% per annum, and (ii) bonds with principal amount of RMB400 million which bear interest at a rate of 4.58% per annum. The interest will be repayable by the Company annually from the Second Issue Date and up to the maturity date. According to the terms of the Corporate Bond, after three years from the Second Issue Date, the Company is entitled to adjust the interest rate of the second tranche of the Corporate Bond for the remaining two years before the maturity date. The Company will announce the adjustment in interest rate, if any, 20 working days prior to the payment of the interest for the third year after the Second Issue Date. The bondholders have an option to sell back the second tranche of the Corporate Bond to the Company at the nominal price, and the exercisable period of this option is five working days immediately after the issuance of the Company's announcement related to the adjustment in interest rate of the second tranche of the Corporate Bond.

Subsequent to the end of the Track Record Periods, the Company issued the third tranche of the Corporate Bond on 21 January 2019 (the "Third Issue Date") with principal amount of RMB700 million, before related expenses, with a maturity period of five years from the Third Issue Date, as further detailed in note 40.

## 28. DEFERRED TAX

### Group

	<u>As at 31 December</u>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax liabilities	<u>1,051,692</u>	<u>1,270,846</u>	<u>1,379,738</u>



The movements in deferred tax liabilities/(assets) during the Track Record Periods are as follows:

**Group**

	Fair value adjustments arising from acquisition of subsidiaries	Temporary differences on assets recognised under IFRIC 12	Undistributed profits of subsidiaries	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2016	245,350	710,768	113,364	(14,259)	1,055,223
Deferred tax charged/ (credited) to profit or loss	(14,165)	62,541	21,653	—	70,029
Exchange realignment	<u>(17,372)</u>	<u>(48,681)</u>	<u>(8,782)</u>	<u>1,275</u>	<u>(73,560)</u>
At 31 December 2016 and 1 January 2017	213,813	724,628	126,235	(12,984)	1,051,692
Deferred tax charged/ (credited) to profit or loss	(13,972)	137,812	25,540	—	149,380
Exchange realignment	<u>13,852</u>	<u>47,960</u>	<u>8,784</u>	<u>(822)</u>	<u>69,774</u>
At 31 December 2017 and 1 January 2018	213,693	910,400	160,559	(13,806)	1,270,846
Deferred tax charged/ (credited) to profit or loss	(11,845)	135,150	47,556	—	170,861
Acquisition of subsidiaries (note 31)	2,269	—	—	—	2,269
Exchange realignment	<u>(10,865)</u>	<u>(44,968)</u>	<u>(9,005)</u>	<u>600</u>	<u>(64,238)</u>
At 31 December 2018	<u>193,252</u>	<u>1,000,582</u>	<u>199,110</u>	<u>(13,206)</u>	<u>1,379,738</u>

The Group has estimated tax losses arising in Mainland China of approximately HK\$104,200,000, HK\$98,154,000 and HK\$117,783,000 as at 31 December 2016, 2017 and 2018, respectively, that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets in respect of such tax losses arising in Mainland China have not been recognised as they have arisen in certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007.

A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 29. SHARE CAPITAL

### Group and Company

	<u>As at 31 December</u>		
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Authorised:			
10,000,000,000 ordinary shares of HK\$1 each	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Issued and fully paid:			
2,609,908,001, 2,625,641,871 and 2,676,062,186 ordinary shares of HK\$1 each	<u>2,609,908</u>	<u>2,625,642</u>	<u>2,676,062</u>

A summary of movements in share capital is as follows:

	Notes	Number of shares in issue '000	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016		2,608,014	2,608,014	1,210,050	3,818,064
Issue of ordinary shares pursuant to a scrip dividend scheme	(a)	10,177	10,177	30,250	40,427
Share buy-back	(b)	<u>(8,283)</u>	<u>(8,283)</u>	<u>—</u>	<u>(8,283)</u>
At 31 December 2016 and 1 January 2017		2,609,908	2,609,908	1,240,300	3,850,208
Issue of ordinary shares pursuant to a scrip dividend scheme	(c)	15,734	15,734	26,116	41,850
Share issue expenses		<u>—</u>	<u>—</u>	<u>(168)</u>	<u>(168)</u>
At 31 December 2017 and 1 January 2018		2,625,642	2,625,642	1,266,248	3,891,890
Issue of ordinary shares pursuant to a scrip dividend scheme	(d), (e)	50,420	50,420	67,281	117,701
Share issue expenses		<u>—</u>	<u>—</u>	<u>(348)</u>	<u>(348)</u>
At 31 December 2018		<u>2,676,062</u>	<u>2,676,062</u>	<u>1,333,181</u>	<u>4,009,243</u>

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*Notes:*

- (a) The Company declared a dividend of SGD0.0035 per ordinary share for the financial year ended 31 December 2015. According to the result of an election between a cash dividend and a scrip dividend by shareholders of the Company, dividends of SGD2,109,092 were settled by the Company in cash and 10,177,139 ordinary shares were issued on 21 June 2016 to settle the remaining dividend payable of SGD6,991,681 (equivalent to approximately HK\$40,427,000).
- (b) During the year ended 31 December 2016, the Company repurchased 8,283,400 of its shares on the Singapore Exchange Securities Trading Limited at a total consideration of HK\$22,489,000. All ordinary shares repurchased during the year ended 31 December 2016 were cancelled, and the share capital of the Company was reduced by the par value of the repurchased ordinary shares so cancelled. The remaining premium of HK\$14,206,000 paid for the repurchase of the ordinary shares was charged to contributed surplus reserve of the Company.
- (c) The Company declared a dividend of SGD0.0037 per ordinary share for the financial year ended 31 December 2016. According to the result of an election between a cash dividend and a scrip dividend by shareholders of the Company, dividends of SGD2,183,081 were settled by the Company in cash and 15,733,870 ordinary shares were issued on 22 June 2017 to settle the remaining dividend payable of SGD7,473,578 (equivalent to approximately HK\$41,850,000).
- (d) The Company declared a dividend of SGD0.0049 per ordinary share for the financial year ended 31 December 2017. According to the result of an election between a cash dividend and a scrip dividend by shareholders of the Company, dividends of SGD2,612,855 were settled by the Company in cash and 24,411,431 ordinary shares were issued on 21 June 2018 to settle the remaining dividend payable of SGD10,252,789 (equivalent to approximately HK\$60,068,000).
- (e) The Company declared an interim dividend of SGD0.0049 per ordinary share for the financial year ended 31 December 2018. According to the result of an election between a cash dividend and a scrip dividend by shareholders of the Company, dividends of SGD2,919,823 were settled by the Company in cash and 26,008,884 ordinary shares were issued on 11 October 2018 to settle the remaining dividend payable of SGD10,065,437 (equivalent to approximately HK\$57,633,000).

The share premium account may be applied only for the purposes specified in the Companies Act 1981 of Bermuda.

### Share options

On 27 October 2011, the Company established an employee share option scheme (the "Scheme") that entitles key management personnel and controlling shareholders to purchase shares in the Company at an exercise price determined by the committee established to administer the Scheme. The Scheme was terminated during the year ended 31 December 2018.

No share options were granted or outstanding during the Track Record Periods upon the termination of the Scheme.

As at the date of this report, there is no share option scheme outstanding.

## **30. RESERVES**

### (a) Group

The amounts of the Group's reserves and the movements therein for the Track Record Periods are presented in the consolidated statements of changes in equity of this report.

(i) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

(ii) Statutory reserve

In accordance with the Company Law of the People's Republic of China, the subsidiaries in the PRC are required to allocate 10% of the statutory after tax profits to the statutory reserve until the cumulative total of the reserve reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

(iii) Contributed surplus reserve

Contributed surplus reserve arose from the reduction of share premium. Pursuant to the special resolution at the Special General Meeting of the Company held on 15 December 2015, the entire amount standing to the credit of the Company's share premium was reduced to nil and transferred to the contributed surplus reserve.

(iv) Other reserves

Other reserves comprise capital reserve and other reserve.

## (b) Company

	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Contributed surplus reserve HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2016	—	(424,795)	7,653,288	64,953	113,540	7,406,986
Total comprehensive income / (loss) for the year	—	(659,908)	—	—	16,288	(643,620)
Issue of ordinary shares pursuant to a scrip dividend scheme (note 29)	30,250	—	—	—	—	30,250
Final 2015 dividend declared	—	—	—	—	(52,304)	(52,304)
Share buy-back (note 29)	—	—	(14,206)	—	—	(14,206)
At 31 December 2016 and 1 January 2017	30,250	(1,084,703)	7,639,082	64,953	77,524	6,727,106
Total comprehensive income for the year	—	591,893	—	—	55,469	647,362
Issue of ordinary shares pursuant to a scrip dividend scheme (note 29)	26,116	—	—	—	—	26,116
Share issue expenses (note 29)	(168)	—	—	—	—	(168)
Final 2016 dividend declared	—	—	—	—	(53,611)	(53,611)
At 31 December 2017 and 1 January 2018	56,198	(492,810)	7,639,082	64,953	79,382	7,346,805
Total comprehensive income / (loss) for the year	—	(441,728)	—	—	273,278	(168,450)
Issue of ordinary shares pursuant to a scrip dividend scheme (note 29)	67,281	—	—	—	—	67,281
Share issue expenses (note 29)	(348)	—	—	—	—	(348)
Final 2017 dividend declared	—	—	—	—	(76,920)	(76,920)
Interim 2018 dividend	—	—	—	—	(74,644)	(74,644)
At 31 December 2018	123,131	(934,538)	7,639,082	64,953	201,096	7,093,724

**31. BUSINESS COMBINATIONS**

## Acquisition of Xuzhou Engineering Design Institute

On 13 June 2018, BEWI entered into an equity purchase agreement (the "Xuzhou Agreement") with certain individual third parties (the "Xuzhou Sellers"), pursuant to which BEWI agreed to acquire the entire equity interest in Xuzhou Engineering Design Institute from the Xuzhou Sellers at a consideration of RMB82,000,000 (equivalent to approximately HK\$99,946,000) in cash (the "Xuzhou Acquisition"). Xuzhou Engineering Design Institute and its subsidiary, Shanghai Weiyang, (collectively, "Xuzhou Engineering Design Institute Group") are engaged in the survey, mapping, design and consultancy services for projects relating to roads, bridges, tunnels, water supply, drainage, heat, gas, electricity, construction, landscape, sanitation, highways and water conservancy, as well as the consultancy services for project costs and project management.

Pursuant to the Xuzhou Agreement, the Xuzhou Sellers and Xuzhou Engineering Design Institute guarantee and undertake to BEWI that the amount of new business contracts entered into by Xuzhou Engineering Design Institute Group shall be no less than RMB55,000,000 (the "Target Amount") for each calendar year from 2018 to 2020, and the aggregate amount of the new business contracts entered into by Xuzhou Engineering Design Institute Group shall be no less than RMB165,000,000 (the "Target Sum") during 2018 to 2020 (the "Performance Guarantee"). In the event that the Performance Guarantee is unfulfilled, the Xuzhou Sellers undertake to pay to BEWI a compensation which is determined depending on the amount of shortfall between the actual new business contract amount and the Target Amount and/or the Target Sum.

The consideration for the Xuzhou Acquisition was satisfied by the Group as follows:

- HK\$99,946,000 in cash;
- contingent consideration receivable of HK\$5,643,000, arising from the Performance Guarantee.

At the date of acquisition, Xuzhou Engineering Design Institute had claims against certain customers for approximately RMB200 million (equivalent to approximately HK\$244 million). Pursuant to the Xuzhou Agreement, any claim amounts recovered from the relevant customers within three years from completion of the Xuzhou Acquisition, after deducting the related recovery costs, tax expenses and commission expenses, will be payable to the Xuzhou Sellers. Having considered all currently available information, the directors of the Company are of the view that the recovery of the claims is not probable.

The Xuzhou Acquisition was completed on 30 June 2018, and thereafter Xuzhou Engineering Design Institute and its subsidiary became indirect wholly-owned subsidiaries of the Company.

The cash consideration for the Xuzhou Acquisition of HK\$39,979,000 and HK\$44,973,000 were paid by the Group in June 2018 and September 2018, respectively, and the remaining consideration of HK\$14,994,000 was recorded in "Trade and other payables" in the consolidated statement of financial position as at 31 December 2018.

The fair values of the identifiable assets and liabilities of Xuzhou Engineering Design Institute Group as at the date of acquisition were as follows:

	<i>Notes</i>	<b>Fair value recognised on acquisition</b> <i>HK\$'000</i>
Property, plant and equipment	14	11,614
Intangible assets	16	13,638
Trade and other receivables		38,721
Cash and cash equivalents		33,458
Deferred tax liabilities	28	(2,269)
Trade and other payables		(39,266)
Tax payable		<u>(1,428)</u>
Total identifiable net assets at fair value		54,468
Goodwill on acquisition	17	<u>39,835</u>
		<u>94,303</u>
Satisfied by:		
Cash		99,946
Contingent consideration receivable	22	<u>(5,643)</u>
		<u>94,303</u>

The fair value of the trade and other receivables as at the date of acquisition amounted to HK\$38,721,000. The gross contractual amount of trade and other receivables was HK\$50,569,000, of which HK\$11,848,000 is expected to be uncollectible.

The fair value of contingent consideration receivable as at 30 June 2018 is based on the valuation report issued by Grant Sherman Appraisal Limited, an independent professional qualified valuer, by using a discounted cash flow method with scenario simulation.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration receivable as at 30 June 2018 are as follows:

<b>Significant unobservable inputs</b>	<b>Range</b>
Estimated amounts of the new business contracts entered into by Xuzhou Engineering Design Institute Group during 2018 to 2020	RMB85.6 million to RMB261.4 million
Discount rate	17.5%

A significant increase (decrease) in the amounts of the new business contracts entered into by Xuzhou Engineering Design Institute Group would result in a significant decrease (increase) in the fair value of the contingent consideration receivable. A significant increase (decrease) in the discount rate would result in a significant decrease (increase) in the fair value of the contingent consideration receivable.

The Group incurred transaction costs of HK\$878,000 for this acquisition. These transaction costs were expensed and included in "Administrative and other operating expenses" in the consolidated statement of comprehensive income for the year ended 31 December 2018.

An analysis of the cash flows in respect of the acquisition of Xuzhou Engineering Design Institute is as follows:

	2018
	<i>HK\$'000</i>
Cash consideration	(84,952)
Cash and cash equivalents acquired	<u>33,458</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(51,494)
Transaction costs of the acquisition included in cash flows from operating activities	<u>(878)</u>
	<u>(52,372)</u>

Since the acquisition, Xuzhou Engineering Design Institute Group contributed HK\$53,320,000 to the Group's revenue and a profit of HK\$5,523,000 to the consolidated profit for the year ended 31 December 2018.

Had the acquisition taken place on 1 January 2018, the consolidated revenue and profit for the year ended 31 December 2018 of the Group would have been HK\$4,843,986,000 and HK\$752,686,000, respectively. In determining these amounts, management assumed that the fair value adjustments to the acquired assets and liabilities that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

## 32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

### (a) Major non-cash transactions

- (i) During the years ended 31 December 2016, 2017 and 2018, the Company allotted and issued 10,177,139, 15,733,870 and 24,411,431 ordinary shares to settle the final dividends of HK\$40,427,000, HK\$41,850,000 and HK\$60,068,000 for the financial years ended 31 December 2015, 2016 and 2017, respectively, which were paid to



ordinary shareholders who had elected to participate in the scrip dividend scheme, and have no cash flow impact to the Group.

During the year ended 31 December 2018, the Company allotted and issued 26,008,884 ordinary shares to settle the interim dividend of HK\$57,633,000 for the financial year ended 31 December 2018, which were paid to ordinary shareholders who had elected to participate in the scrip dividend scheme, and have no cash flow impact to the Group.

- (ii) During the years ended 31 December 2017 and 2018, the interest expenses on corporate bonds of HK\$22,971,000 and HK\$40,137,000, respectively, were not yet settled by the Group, and recorded in "Trade and other payables" in the consolidated statements of financial position as at 31 December 2017 and 2018, and have no cash flow impact to the Group.
- (iii) During the years ended 31 December 2017 and 2018, the dividends declared to the non-controlling shareholder of a non-wholly-owned subsidiary of HK\$21,450,000 and HK\$29,856,000, respectively, were not yet settled by the Group as at 31 December 2017 and 2018, and recorded in "Trade and other payables" in the consolidated statements of financial position as at 31 December 2017 and 2018, and have no cash flow impact to the Group.

## (b) Changes in liabilities arising from financing activities

	Bank and other loans HK\$'000	Corporate bonds HK\$'000	Interest payable HK\$'000	Amounts due to fellow subsidiaries HK\$'000	Amounts due to intermediate holding companies HK\$'000	Dividend payable to non-controlling shareholders of non- wholly-owned subsidiaries HK\$'000
At 1 January 2016	4,818,237	—	2,491	160,839	79,921	—
Changes from financing cash flows	309,687	—	(205,223)	8,256	3,711	(14,550)
Finance costs	—	—	205,223	—	—	—
Dividends declared to a non-controlling shareholder of a subsidiary	—	—	—	—	—	14,550
Foreign exchange movement	(240,426)	—	3,976	(18,913)	(5,296)	—
At 31 December 2016	4,887,498	—	6,467	150,182	78,336	—

	Bank and other loans HK\$'000	Corporate bonds HK\$'000	Interest payable HK\$'000	Amounts due to fellow subsidiaries HK\$'000	Amounts due to intermediate holding companies HK\$'000	Dividend payable to non-controlling shareholders of non- wholly-owned subsidiaries HK\$'000
At 1 January 2017	4,887,498	—	6,467	150,182	78,336	—
Changes from financing cash flows	366,893	1,144,831	(198,753)	(154,928)	(79,034)	—
Finance costs	—	—	241,391	—	—	—
Dividends declared to a non-controlling shareholder of a subsidiary	—	—	—	—	—	21,450
Foreign exchange movement	196,326	36,204	(5,142)	4,746	698	994
At 31 December 2017 and 1 January 2018	5,450,717	1,181,035	43,963	—	—	22,444
Changes from financing cash flows	188,929	944,251	(268,257)	—	4	(28,609)
Finance costs	—	—	291,398	—	—	—
Dividends declared to a non-controlling shareholder of a subsidiary	—	—	—	—	—	36,040
Foreign exchange movement	(74,274)	(89,882)	(2,328)	—	—	(1,292)
At 31 December 2018	5,565,372	2,035,404	64,776	—	4	28,583

**33. PLEDGE OF ASSETS**

Details of the Group's assets pledged for the Group's banking facilities and other loans are included in note 26. The aggregate net book values of assets and equity interests in subsidiaries pledged amounted to HK\$3,819,775,000, HK\$5,816,472,000 and HK\$5,872,547,000 as at 31 December 2016, 2017 and 2018, respectively.

**34. OPERATING LEASE ARRANGEMENTS**

The Group leases a number of properties under operating leases, with leases negotiated for terms ranging from one to thirty years. None of the leases includes contingent rentals.

At the end of each of the Track Record Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<u>As at 31 December</u>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	6,807	11,079	7,098
After 1 year but within 5 years	5,239	4,575	3,073
After 5 years	<u>544</u>	<u>2,312</u>	<u>507</u>
	<u>12,590</u>	<u>17,966</u>	<u>10,678</u>

**35. COMMITMENTS**

In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments at the end of each of the Track Record Periods:

	<u>As at 31 December</u>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchase commitments outstanding in connection with the Group's construction contracts were as follows:			
Contracted, but not provided for	<u>857,124</u>	<u>681,615</u>	<u>1,936,318</u>

## 36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in this report, the Group entered into the following material related party transactions during the Track Record Periods:

- (a) The Group entered into the following related party transactions with a related party bank:

	<u>Year ended 31 December</u>		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Interest expense	<u>2,362</u>	<u>1,238</u>	<u>—</u>

Details of the Group's deposits placed with a related party bank and loans from a related party bank are included in notes 24 and 26.

- (b) The Group entered into the following related party transactions with non-controlling shareholders of non-wholly-owned subsidiaries of the Group:

	<u>Year ended 31 December</u>		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Revenue from project operation service	47,668	45,775	114,139
Finance income	24,809	21,462	20,931
Cost of construction service	<u>—</u>	<u>—</u>	<u>120,644</u>

- (c) The Group entered into the following related party transactions with a related company of the Group:

	<u>Year ended 31 December</u>		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Revenue from project operation service	39,773	47,720	53,594
Finance income	<u>47,157</u>	<u>45,616</u>	<u>46,651</u>

- (d) The Group entered into the following related party transactions with an associate of the Group:

	<u>Year ended 31 December</u>		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Service expenses for operation of waste water treatment plants	<u>—</u>	<u>41,717</u>	<u>41,884</u>

- (e) The Group entered into the following related party transactions with fellow subsidiaries and intermediate holding companies of the Group:

	Notes	Year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Sales of equipment	(i)	—	—	49,279
Rental expenses	(ii)	3,804	5,245	6,177
Interest expenses	(iii)	10,534	7,311	—
Underwriting service fee	(iv)	—	5,759	4,746
Costs of operation	(v)	—	—	2,490
Listing related fee	(vi)	—	—	1,763
Insurance expenses	(vii)	<u>152</u>	<u>978</u>	<u>1,463</u>

Notes:

- (i) The sales of equipment to fellow subsidiaries of the Group were conducted based on mutually agreed terms.
- (ii) The rental expenses of an office were charged by a fellow subsidiary of the Group on mutually agreed terms.
- (iii) The interest expenses in respect of the advances from fellow subsidiaries and intermediate holding companies, which were repayable by 2017, were charged at rates ranging from HIBOR+2.5% per annum to the rates announced by the People's Bank of China.
- (iv) The underwriting service fees of the issue of the first and second tranches of the Corporate Bond paid to a fellow subsidiary were calculated pursuant to the relevant underwriting agreement.
- (v) The costs of operation were paid for the sludge disposal services provided by fellow subsidiaries of the Group.
- (vi) The listing related fee was charged by a fellow subsidiary of the Group on mutually agreed terms.
- (vii) The insurance expenses were charged by a fellow subsidiary of the Group on mutually agreed terms.
- (f) Transactions with other stated-owned entities in Mainland China:

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the Track Record Periods, the Group had transactions with the Other SOEs including, but not limited to the waste water treatment service, bank deposits and borrowings, and utilities consumption. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies are not carried out on non-market terms and do not depend on whether or not the customers are the Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions is a material related party transaction that would require separate disclosure.

- (g) The Group paid key management personnel compensation as follows:

	<u>Year ended 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other short-term employee benefit	13,491	20,448	21,093
Defined contribution plans	<u>175</u>	<u>283</u>	<u>1,345</u>
	<u>13,666</u>	<u>20,731</u>	<u>22,438</u>

- (h) As disclosed in note 36(e), the Group has rental commitments with a fellow subsidiary of the Group under non-cancellable operating leases falling due as follows:

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	4,413	5,919	4,025
After 1 year but within 5 years	<u>5,094</u>	<u>5,776</u>	<u>2,583</u>
	<u>9,507</u>	<u>11,695</u>	<u>6,608</u>

- (i) Applicability of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") relating to connected transactions

The related party transactions disclosed in note 36(e) above constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

### 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, bank deposits, trade payables, current portion of trade receivables, other receivables, other payables, and borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's financial management department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the financial management department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of trade receivables, other receivables, other payables, and borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for borrowings as at the end of each of the Track Record Periods was assessed to be insignificant.

The fair value of contingent consideration receivable as at 31 December 2018 is based on the valuation by the management using a discounted cash flow method with scenario simulation.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018:

	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Range</b>	<b>Sensitivity of fair value to the input</b>
Contingent consideration receivable	Discounted cash flow method with scenario simulation	Estimated amounts of the new business contracts	RMB73.8 million to RMB237.8 million	5% increase (decrease) in estimated amounts of the new business contracts would result in decrease in fair value by HK\$593,000 or increase in fair value by HK\$623,000
		Discount rate	17.5%	1% increase (decrease) in discount rate would result in decrease (increase) in fair value by HK\$45,000



**Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Contingent consideration receivable	—	—	<u>8,541</u>	<u>8,541</u>

The movements in fair value measurements within Level 3 during the year ended 31 December 2018 are as follows:

	HK\$'000
Contingent consideration receivable:	
At 1 January 2018	—
Additions during the year	5,643
Fair value gain	3,428
Exchange realignment	<u>(530)</u>
At 31 December 2018	<u>8,541</u>

The Group did not have any financial assets measured at fair value as at 31 December 2016 and 2017.

The Group did not have any financial liabilities measured at fair value as at 31 December 2016, 2017 and 2018.

During the years ended 31 December 2016, 2017 and 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

## 38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Track Record Periods are as follows:

**Financial assets**

	<u>As at 31 December</u>	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Group</b>		
<b>Loans and receivables</b>		
Financial assets included in trade and other receivables	500,687	551,596
Fixed deposits with maturity period over three months	543,340	630,403
Cash and cash equivalents	<u>1,359,401</u>	<u>2,169,414</u>
	<u>2,403,428</u>	<u>3,351,413</u>

	<u>As at 31 December 2018</u>		
	Financial assets at amortised cost	Financial assets at FVPL	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Group</b>			
Financial assets included in trade and other receivables	826,746	8,541	835,287
Fixed deposits with maturity period over three months	547,050	—	547,050
Cash and cash equivalents	<u>1,728,573</u>	<u>—</u>	<u>1,728,573</u>
	<u>3,102,369</u>	<u>8,541</u>	<u>3,110,910</u>

**Financial liabilities — financial liabilities at amortised cost**

	<u>As at 31 December</u>		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Group</b>			
Financial liabilities included in trade and other payables	882,968	1,493,486	1,784,866
Borrowings	<u>4,887,498</u>	<u>6,631,752</u>	<u>7,600,776</u>
	<u>5,770,466</u>	<u>8,125,238</u>	<u>9,385,642</u>

**Financial assets — loans and receivables/financial assets at amortised cost**

	<u>As at 31 December</u>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Company</b>			
Financial assets included in other receivables	2,096,933	1,834,010	3,660,270
Cash and cash equivalents	<u>30,716</u>	<u>27,783</u>	<u>31,661</u>
	<u>2,127,649</u>	<u>1,861,793</u>	<u>3,691,931</u>

**Financial liabilities — financial liabilities at amortised cost**

	<u>As at 31 December</u>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Company</b>			
Financial liabilities included in trade and other payables	20,655	155,531	102,001
Borrowings	<u>1,960,584</u>	<u>3,434,092</u>	<u>4,564,905</u>
	<u>1,981,239</u>	<u>3,589,623</u>	<u>4,666,906</u>

**39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise borrowings, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables, and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4.

*Interest rate risk*

The Group's interest rate risk arises primarily from the Group's cash and cash equivalents, fixed deposits with maturity period over three months, borrowings and balances with group companies. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

## (i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (being interest-bearing financial liabilities less bank deposits, cash and cash equivalents and other interest-bearing financial assets) at the end of each of the Track Record Periods.

	As at 31 December 2016		As at 31 December 2017		As at 31 December 2018	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
	%		%		%	
Net fixed rate borrowings/(deposits):						
Borrowings	2.88 - 2.90	498,919	2.88 - 4.55	1,706,219	2.88 - 4.60	2,532,678
Less: Fixed deposits with maturity period over three months	0.15	(543,340)	0.15 - 3.80	(630,403)	0.15	(547,050)
Cash and cash equivalents	—	—	4.40	(95,000)	1.75	(9,769)
Amount due from an associate	—	—	—	—	4.75	(4,029)
		(44,421)		980,816		1,971,830
Net variable rate borrowings/(deposits):						
Borrowings	2.20 - 6.00	4,388,579	2.60 - 4.90	4,925,533	2.95 - 5.02	5,068,098
Amounts due to fellow subsidiaries and intermediate holding companies	3.77 - 4.75	228,518	—	—	—	—
Less: Cash and cash equivalents	0.01 - 1.75	(1,359,401)	0.01 - 1.75	(2,074,414)	0.01 - 1.76	(1,718,804)
		3,257,696		2,851,119		3,349,294
Total net borrowings		3,213,275		3,831,935		5,321,124

## (ii) Sensitivity analysis

It is estimated that a general increase/decrease of one percent in interest rates at 31 December 2016, 2017 and 2018, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately HK\$32,133,000, HK\$38,319,000 and HK\$53,211,000 at 31 December 2016, 2017 and 2018, respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit before tax that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit before tax is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis was performed on the same basis throughout the Track Record Periods.

*Foreign currency risk*

## (i) Exposure to currency risk

The Group is exposed to currency risk primarily from borrowings, cash and cash equivalents, fixed deposits with maturity period over three months, receivables and payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily HK\$, RMB, US\$, SGD and Euro ("EUR").

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the Historical Financial Information of foreign operations into the Group's presentation currency are excluded.

<b>Exposure to foreign currencies</b> <b>(expressed in Hong Kong dollars)</b> <b>As at 31 December 2016</b>				
	<b>RMB</b>	<b>SGD</b>	<b>HK\$</b>	<b>US\$</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents	91,969	2,511	149	127,590
Fixed deposits with maturity period over three months	—	—	—	543,340
Borrowings	—	—	—	(1,960,584)
Amounts due from group companies, net	226,724	10,267	35,703	—
Trade and other payables	<u>(6,981)</u>	<u>(1,675)</u>	<u>(10,924)</u>	<u>(7,710)</u>
	<u>311,712</u>	<u>11,103</u>	<u>24,928</u>	<u>(1,297,364)</u>

<b>Exposure to foreign currencies</b> <b>(expressed in Hong Kong dollars)</b> <b>As at 31 December 2017</b>					
	<b>RMB</b>	<b>SGD</b>	<b>HK\$</b>	<b>US\$</b>	<b>EUR</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents	9,294	1,916	140,917	329	5,036
Fixed deposits with maturity period over three months	—	—	—	547,278	—
Borrowings	—	—	(337,000)	(1,916,057)	—
Amounts due from/(to) group companies, net	394,324	(55)	267,142	—	—
Trade and other payables	<u>(7,685)</u>	<u>(918)</u>	<u>(6,034)</u>	<u>(22,667)</u>	<u>—</u>
	<u>395,933</u>	<u>943</u>	<u>65,025</u>	<u>(1,391,117)</u>	<u>5,036</u>

**Exposure to foreign currencies**  
**(expressed in Hong Kong dollars)**  
**As at 31 December 2018**

	<b>RMB</b>	<b>SGD</b>	<b>HK\$</b>	<b>US\$</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents	1,712	1,205	36,998	35,454
Fixed deposits with maturity period over three months	—	—	—	547,050
Borrowings	—	—	(1,476,918)	(1,052,583)
Amounts due from/(to) group companies, net	602,360	(54)	531,732	—
Trade and other payables	<u>(4,578)</u>	<u>(1,437)</u>	<u>(6,162)</u>	<u>(22,624)</u>
	<u>599,494</u>	<u>(286)</u>	<u>(914,350)</u>	<u>(492,703)</u>

## (ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit before tax that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Except for those subsidiaries with their functional currencies other than Hong Kong dollars, the impact of foreign exchange rate fluctuations with respect to the assets and liabilities denominated in United States dollars is insignificant as the Hong Kong dollar is pegged to the United States dollar.

	As at 31 December 2016		As at 31 December 2017		As at 31 December 2018	
	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax HK\$'000
RMB	10	31,171	10	39,593	10	59,949
RMB	(10)	(31,171)	(10)	(39,593)	(10)	(59,949)
SGD	10	1,110	10	94	10	(29)
SGD	(10)	(1,110)	(10)	(94)	(10)	29
HK\$	10	2,493	10	6,503	10	(91,435)
HK\$	(10)	(2,493)	(10)	(6,503)	(10)	91,435
US\$	10	36,105	10	27,551	10	101,257
US\$	(10)	(36,105)	(10)	(27,551)	(10)	(101,257)
EUR	—	—	10	504	—	—
EUR	—	—	(10)	(504)	—	—



Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit before tax measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis was performed on the same basis throughout the Track Record Periods.

#### *Credit risk*

Management has a credit policy in place and the exposures to credit risk are monitored on an ongoing basis. Debts are usually due within 30 to 90 days from the date of billing.

Trade receivables of the Group represent receivables in respect of revenue from environmental water project operation services which are settled on a monthly basis. In addition, the Group has service concession financial receivables in respect of the BOT, TOT and certain BOO arrangements.

At 31 December 2016, 2017 and 2018, "Trade and other receivables" and "Service concession financial receivables" amounted to HK\$9,569,943,000, HK\$12,330,637,000 and HK\$14,336,286,000, respectively, of which HK\$1,661,181,000, HK\$697,823,000 and HK\$2,869,455,000 were due from the largest customer and HK\$4,150,453,000, HK\$3,716,929,000 and HK\$5,368,951,000 were due from the five largest customers in aggregate of the Group, respectively. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position. Since the parties to BOT, TOT and BOO arrangements are local government authorities in the PRC, the Group considers the credit risk is low as at 31 December 2016, 2017 and 2018. The Group does not hold any collateral over these balances.

From 1 January 2018, upon the adoption of IFRS 9, management groups financial instruments on basis of shared credit risk characteristics, such as instrument type and credit risk ratings for the purpose of determining significant increase in credit risk and calculation of impairment. The carrying amounts of each financial asset in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets as at 31 December 2018.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;

- a breach of contract such as a default or past due event;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

To manage credit risk arising from trade receivables and service concession financial receivables, the credit quality of the debtors is assessed, taking into account their financial position, historical settlement records, past experience and other factors. The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The ECLs also incorporated forward looking information.

The Group has established a policy to perform an assessment as at 31 December 2018, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group groups its other receivables into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1	When other receivables are first recognised, the Group recognised an allowance based on 12 months' ECL.
Stage 2	When other receivables have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.
Stage 3	Other receivables considered credit-impaired. The Group records an allowance for the lifetime ECLs.

Management also makes periodic collective assessments for other receivables as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and other factors. The Group classified other receivables in stage 1 and continuously monitored their credit risk. Management believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables as at 31 December 2018.

As at 31 December 2018, all fixed deposits with maturity period over three months and cash and cash equivalents were deposited with creditworthy financial institutions without significant credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from "Service concession financial receivables" as well as "Trade and other receivables" are set out in notes 20 and 22, respectively.

#### *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash

demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

As at 31 December 2016						
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities included in trade and other payables	882,968	907,428	907,428	—	—	—
Borrowings	4,887,498	5,527,833	1,722,863	743,418	2,359,098	702,454
	<u>5,770,466</u>	<u>6,435,261</u>	<u>2,630,291</u>	<u>743,418</u>	<u>2,359,098</u>	<u>702,454</u>
As at 31 December 2017						
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities included in trade and other payables	1,493,486	1,493,486	1,493,486	—	—	—
Borrowings*	6,631,752	7,354,040	2,143,557	1,777,688	2,498,799	933,996
	<u>8,125,238</u>	<u>8,847,526</u>	<u>3,637,043</u>	<u>1,777,688</u>	<u>2,498,799</u>	<u>933,996</u>

\* Included in borrowings is a corporate bond payable with a carrying amount of HK\$1,181,035,000 containing an option to sell back the bond to the Company and therefore, for the purpose of the above maturity profile, the total contractual discounted cash flow amount of HK\$1,322,356,000 related to the Corporate Bond is presented as: HK\$54,031,000 classified as repayable "within 1 year or on demand", HK\$54,031,000 classified as repayable "more than 1 year but within 2 years" and HK\$1,214,294,000 classified as repayable "more than 2 years but within 5 years".

The Corporate Bond will be due for repayment on the respective maturity dates unless being sold back to the Company prior to the maturity pursuant to the terms of the Corporate Bond. In accordance with the terms of the Corporate Bond, the maturity terms as at 31 December 2017 are HK\$54,031,000 in 2018, HK\$54,031,000 in 2019 and HK\$1,322,356,000 in 2020 to 2022.

	As at 31 December 2018					
	Carrying amount HK\$'000	Total contractual undiscouted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but within 2 years HK\$'000	More than 2 years but within 5 years HK\$'000	More than 5 years HK\$'000
Financial liabilities included in trade and other payables	1,784,866	1,784,866	1,784,866	—	—	—
Borrowings*	7,600,776	8,097,201	2,433,845	1,978,535	3,226,295	458,526
	<u>9,385,642</u>	<u>9,882,067</u>	<u>4,218,711</u>	<u>1,978,535</u>	<u>3,226,295</u>	<u>458,526</u>

\* Included in borrowings are corporate bond payables with a carrying amount of HK\$2,035,404,000 containing an option to sell back the bond to the Company and therefore, for the purpose of the above maturity profile, the total contractual discounted cash flow amount of HK\$2,230,461,000 related to the Corporate Bond is presented as: HK\$93,649,000 classified as repayable "within 1 year or on demand", HK\$1,203,637,000 classified as repayable "more than 1 year but within 2 years" and HK\$933,175,000 classified as repayable "more than 2 years but within 5 years".

The Corporate Bond will be due for repayment on the respective maturity dates unless being sold back to the Company prior to the maturity pursuant to the terms of the Corporate Bond. In accordance with the terms of the Corporate Bond, the maturity terms as at 31 December 2018 are HK\$93,649,000 in 2019, HK\$93,649,000 in 2020 and HK\$2,230,462,000 in 2021 to 2023.

### Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value.

In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, issue new shares or obtain new borrowings. The Group's strategies are to maintain a prudent balance between the advantage and flexibility afforded by a sound capital position and the higher return on equity that is possible with greater leverage. There was no change in capital management policies during the Track Record Periods.

Consistently, the Group monitors capital based on a net debt against equity ratio. The net debt against equity ratio is calculated by dividing net debt by total equity. Net debt is calculated as total liabilities (as shown in the consolidated statements of financial position of the Group, excluding tax payables and deferred tax liabilities) less cash and cash equivalents. Total equity comprises share capital, reserves and non-controlling interests.

	<b>As at 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and other payables	937,238	1,553,565	1,895,095
Borrowings	4,887,498	6,631,752	7,600,776
Less: Cash and cash equivalents	<u>(1,359,401)</u>	<u>(2,169,414)</u>	<u>(1,728,573)</u>
Net debt	<u>4,465,335</u>	<u>6,015,903</u>	<u>7,767,298</u>
Total equity	<u>7,191,702</u>	<u>8,541,805</u>	<u>8,663,697</u>
Net debt against equity ratio	<u>62%</u>	<u>70%</u>	<u>90%</u>

Except for the banking facilities which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in note 26 to the Historical Financial Information, the Group does not subject to externally imposed capital requirements.

#### 40. EVENT AFTER THE TRACK RECORD PERIODS

On 21 January 2019, the Company issued the third tranche of the Corporate Bond with principal amount of RMB700 million, before related expenses, with a maturity period of five years from the Third Issue Date. The third tranche of the Corporate Bond bears interest at a rate of 3.89% per annum. The interest will be repayable by the Company annually from the Third Issue Date and up to the maturity date. According to the terms of the Corporate Bond, after three years from the Third Issue Date, the Company is entitled to adjust the interest rate of the third tranche of the Corporate Bond for the remaining two years before the maturity date. The Company will announce the adjustment in interest rate, if any, 20 working days prior to the payment of the interest for the third year after the Third Issue Date. The bondholders have an option to sell back the third tranche of the Corporate Bond to the Company at the nominal price, and the exercisable period of this option is five working days immediately after the issuance of the Company's announcement related to the adjustment in interest rate of the third tranche of the Corporate Bond.

#### 41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2018.

The information set forth in this appendix does not form part of the Accountants' Report received from the Company's Reporting Accountants, Ernst & Young, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the Accountants' Report set forth in Appendix I to this Prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is to illustrate the effect of the Global Offering on the net tangible assets of our Group attributable to equity holders of the Company as at 31 December 2018 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our financial position had the Global Offering been completed as at 31 December 2018 or any future dates following the Global offering.

	<b>Consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2018</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company</b>	<b>Unaudited pro forma adjusted net tangible assets per Share</b>
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on an Offer Price of HK\$2.99 per Share	<u>5,204,308</u>	<u>284,003</u>	<u>5,488,311</u>	<u>1.97</u>
Based on an Offer Price of HK\$4.35 per Share	<u>5,204,308</u>	<u>422,564</u>	<u>5,626,872</u>	<u>2.02</u>

*Notes:*

- The consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2018 is arrived at after deducting intangible assets of HK\$1,536,169,000 and goodwill of HK\$1,242,713,000 from the consolidated net assets attributable to equity holders of the Company of HK\$7,983,190,000 as at 31 December 2018, as shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus.
- The estimated net proceeds from the Global Offer are based on the indicative offer prices of HK\$2.99 per Share (being the minimum Offer Price) or HK\$4.35 per Share (being the maximum Offer Price), after deduction of the estimated underwriting fees and other listing related expenses, and 103,970,000 Shares expected to be issued under the Global Offering, assuming the Over-allotment Option is not exercised.
- The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 2,780,032,186 Shares expected to be in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised.
- No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2018.

**B. REPORTING ACCOUNTANTS' ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the Company's Reporting Accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this Prospectus, in respect of the additional unaudited pro forma financial information of our Group.*

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

**To the Directors of China Everbright Water Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Everbright Water Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information (the "Pro Forma Financial Information") consists of the pro forma consolidated net tangible assets as at 31 December 2018, and related notes as set out on Appendix II of the prospectus dated 24 April 2019 issued by the Company (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 31 December 2018 as if the transaction had taken place at 31 December 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2018, on which an accountants' report has been published.

**Directors' responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagements in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma



Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong  
24 April 2019

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BERMUDA COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum of Association and Bye-laws of the Company and of certain aspects of Bermuda company law.

The Company was incorporated in Bermuda as an exempted company with limited liability on August 22, 2003 under the Companies Act 1981 of Bermuda, as amended from time to time (the “**Companies Act**”). The Company’s constitutional documents consist of its Memorandum of Association (“**Memorandum**”) and its Bye-laws (“**Bye-laws**”).

**1. MEMORANDUM OF ASSOCIATION**

The Memorandum states, *inter alia*, that the liability of the shareholders of the Company is limited to the amount, if any, for the time being unpaid on the shares held by the shareholders and that the Company is an exempted company as defined in the Companies Act. The Memorandum also sets out the powers of the Company and the objects for which the Company was formed, including acting as a holding and investment company. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business in Bermuda.

In accordance with and subject to the Companies Act, the Memorandum of the Company empowers it to purchase its own shares; this power is exercisable by the Board upon such terms and subject to such conditions as it thinks fit.

**2. BYE-LAWS**

The Bye-laws of the Company were adopted on November 16, 2018. A summary of certain provisions of the Bye-laws is set out below.

**(a) Shares****(i) Classes of shares**

The share capital of the Company consists of ordinary shares.

**(ii) Share Certificates**

Every share certificate shall be issued under the Company’s common seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the board of directors of the Company (“**Board**”) may from time to time determine. The Board may by resolution

determine, either generally or in any particular case or cases, that any signatures on any such certificates (or certificates in respect of other securities) need not be autographic but may be affixed to such certificates by some mechanical means or may be printed thereon or that such certificates need not be signed by any person.

**(iii) Variation of rights of existing shares or classes of shares**

If at any time the capital is divided into different classes of shares, all or any of the special rights attached to any class may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Bye-laws relating to general meetings will apply mutatis mutandis to every such separate general meeting, but so that the necessary quorum is not less than two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class, and that any holder of shares of the class present in person or by proxy or by a duly authorized corporate representative may demand a poll.

**(iv) Alterations of capital**

The Company may from time to time by ordinary resolution: (i) increase its share capital by the creation of new shares; (ii) consolidate all or any of its share capital into shares of larger amount than its existing shares; (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; (v) change the currency denomination of its share capital; (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and (vii) cancel any shares which at the date of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled.

The Company may by special resolution, subject to any confirmation or consent required by law, reduce its authorized or issued share capital in any manner permitted by law.

**(v) Transfer of shares**

Any Shareholder may transfer all or any of his shares by an instrument of transfer in the form acceptable to the Board provided always that the Company shall accept for registration an instrument of transfer in a form approved by the Designated

Stock Exchange (as defined in the Bye-laws). The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that an instrument of transfer in respect of which the transferee is the Depository or a clearing house (as defined in the Bye-laws) shall be effective although not signed or witnessed by or on behalf of the Depository or a clearing house and provided further that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. The Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the Bermuda principal share register to any branch share register or any share on any branch share register to the Bermuda principal share register or any other branch register. In the event of any such transfer, the Shareholder requesting such transfer shall bear the cost of effecting the transfer unless the Board otherwise determines.

The Board may, in its absolute discretion and without giving any reason therefor, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share (not being a fully paid up share) on which the Company has a lien or, except in the case of a transfer to executors, administrators or trustees of the estate of a deceased Shareholder, a transfer of any share to more than four (4) joint holders.

The Board may decline to recognize any instrument of transfer unless: (a) a fee of such sum (not exceeding two Singapore dollars (S\$2.00) or such other maximum sum as the Designated Stock Exchange may determine to be payable) as the Board may from time to time require is paid to the Company in respect thereof; (b) the instrument of transfer is in respect of only one class of share; (c) the instrument of transfer is lodged at the Bermuda registered office or such other place in Bermuda at which the Bermuda principal share register is kept in accordance with the Act or the Registration Office (as defined in the Bye-laws) (as the case may be) accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do); and (d) if applicable, the instrument of transfer is duly and properly stamped. Where applicable, the permission of the Bermuda Monetary Authority with respect to the transfer shall be obtained.

The registration of transfers of shares or of any class of shares may in accordance with the requirements of the Designated Stock Exchange be suspended at such times and for such periods as the Board may from time to time determine. The register of members shall not be closed for more than 30 days in any year.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Designated Stock Exchange) and shall also be free from all liens.

**(vi) Power for the Company to purchase its own shares**

The Company's power to repurchase its own shares is exercisable by the Board, upon such terms and subject to such conditions as it thinks fit and shall also be subject to the Companies Act, the Company's bye-laws and, for so long as the shares of the Company are listed on the Designated Stock Exchange, the prior approval of the Shareholders in general meeting for such purchase or acquisition (such approval to state the shares which may in aggregate be purchased or acquired during any one financial year of the Company). The Board may authorize the purchase by the Company of its own shares, to be held as treasury shares pursuant to section 42B of the Companies Act or to be cancelled pursuant to section 42A(6) of the Companies Act, upon such terms and conditions as it thinks fit. If the Company holds shares as treasury shares, the Company shall be entered in the register of members of the Company as a Shareholder in respect of the shares held by the Company as treasury shares but the Company shall not exercise any rights and shall not enjoy or participate in any of the rights attaching to those treasury shares save as expressly provided for in the Companies Act.

**(vii) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

**(viii) Calls on shares and forfeiture of shares**

The Board may from time to time make such calls as it thinks fit upon the shareholders in respect of any monies unpaid on the shares held by them (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive

payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any shareholder willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a shareholder fails to pay any call or installment of a call on the day appointed for payment, the Board may, for so long as any part of the call or installment remains unpaid, serve a notice on the shareholder requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a shareholder in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(b) Directors**

**(i) Appointment, retirement and removal**

Each Director shall retire at least once every three (3) years. The retirement shall not have effect until the conclusion of the meeting except where a resolution is passed to elect some other person in the place of the retiring Director or a resolution for his re-election is put to the meeting and lost and accordingly a retiring Director who is re-elected or deemed to have been re-elected will continue in office without a break.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting,

unless notice signed by a Shareholder duly qualified to attend and vote at the meeting for which such notice is given of the intention to nominate that person for election as a Director and notice in writing duly signed by the nominee, of his willingness to be elected and signifying his candidature for office shall have been lodged at the Company's registered office at least eleven (11) clear days before the date of the general meeting. In the case of a person recommended by the Board for election, nine (9) clear days' notice only shall be necessary. Notice of each and every candidature for election to the Board shall be served on the Shareholders at least seven (7) days prior to the meeting at which the election is to take place, provided that (if such notice(s) are submitted after the despatch of the notice of the meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the meeting appointed for such election and end no later than seven (7) days prior to the date of such meeting.

The number of Directors shall not be less than two. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). The Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the Board.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The Board may from time to time appoint any one or more of its body to be a managing director or a person holding an equivalent position, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees, consisting of such Director or Directors and other persons as it thinks fit, and they may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any directions which may be imposed on it by the Board.

**(ii) Power to allot and issue shares**

No shares may be issued by the Board without the prior approval of the Company in general meeting but subject thereto and to the Bye-laws and without prejudice to

any special rights or restrictions for the time being attached to any shares or any class of shares, the unissued shares of the Company (whether forming part of the original or any increased capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may in its absolute discretion determine but so that no shares shall be issued at a discount, provided always that (a) no shares shall be issued to transfer a controlling interest in the Company without the prior approval of the Shareholders in general meeting; (b) (subject to any direction to the contrary that may be given by the Company in general meeting) any issue of shares for cash to Shareholders holding shares of any class shall be offered to such Shareholders in proportion as nearly as may be to the number of shares of such class then held by them and the provisions of the second sentence of Bye-law 12(2) with such adaptations as are necessary shall apply; and (c) any other issue of shares, the aggregate of which would exceed the limits referred to in Bye-law 12(3), shall be subject to the approval of the Company in general meeting. Bye-law 12(2) provides that except as permitted under the rules or regulations of the Designated Stock Exchange or any direction given by the Company in general meeting, all new shares shall before issue be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as far as the circumstances admit, to the amount of the existing shares to which they are entitled. Bye-law 12(3) provides that the Company in general meeting may by ordinary resolution grant to the Board a general authority, either unconditionally or subject to such conditions as may be specified in the said ordinary resolution, for further issues of shares where the aggregate number of shares to be issued pursuant to such authority does not exceed fifty per cent. (50%) (or such other limit, if any, as may be prescribed by the Designated Stock Exchange) of the issued share capital of the Company at the time of the passing of the said ordinary resolution, of which the aggregate number of shares to be issued other than on a pro rata basis to Shareholders does not exceed twenty per cent. (20%) (or such other limit, if any, as may be prescribed by the Designated Stock Exchange) of the issued share capital of the Company at the time of the passing of the said ordinary resolution, **provided that** such general authority shall only remain in force until (i) the conclusion of the annual general meeting of the Company following the passing of the resolution granting the said authority or (ii) the date by which such annual general meeting is required to be held or (iii) it is revoked or varied by ordinary resolution of the Company in general meeting, whichever is the earliest.

**(iii) Power to dispose of the assets of the Company or any of its subsidiaries**

While there are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the



Company and which are not required by the Bye-laws or the statutes to be exercised or done by the Company in general meeting.

**(iv) Borrowing powers**

The Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

**(v) Remuneration**

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, shall not be increased except pursuant to an ordinary resolution passed at a general meeting where notice of the proposed increase shall have been given in the notice convening the general meeting, and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Board in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Each Director shall be entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director. Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye law. The remuneration in the case of a Director other than an executive Director shall be payable by a fixed sum and shall not at any time be by commission on or percentage of the profits or turnover, and no director whether an executive Director or otherwise shall be remunerated by a commission on or percentage of turnover. The Board shall obtain the approval of the Company in general meeting before making any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's moneys to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit under the Company or any of its subsidiary companies) and ex-employees of the Company and their dependents or any class or classes of such person.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as mentioned in the last preceding paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of or upon or at any time after his actual retirement.

**(vi) Compensation or payments for loss of office**

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

**(vii) Loans to Directors**

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans to their directors, the relevant provisions of which are summarized in section 3(n) of this Appendix.

**(viii) Financial assistance to acquire shares in the Company**

Subject to the provisions of the Companies Act, the Bye-laws and the rules and regulations of the Designated Stock Exchange and any other relevant regulatory authority, the Company may give, whether directly or indirectly, whether by means of loan, guarantee, provision of security or otherwise, any financial assistance for the purpose of the acquisition or proposed acquisition by any person of any shares in the Company.

**(ix) Disclosure of interests in contracts with the Company or any of its subsidiaries**

No Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the Shareholders for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested in accordance with the Bye laws.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or transaction is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. A Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or any other proposal in which he or any of his close associate(s) has/have a material interest. Matters in which he shall not be considered to have a material interest shall include the following:-

- (a) any contract or arrangement for the giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associate(s) or obligations incurred or undertaken by him or any of his close associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any contract or arrangement in which the Director or his close associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/ their interest in shares or debentures or other securities of the Company;

- (d) any proposal concerning any other company in which the Director or any of his close associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director or any of his close associates (as defined by the rules or regulations, where applicable, of the Designated Stock Exchange) is/are beneficially interested in shares of that company, provided that the Director and any of his close associates are not in aggregate beneficially interested in five (5) per cent or more of the issued shares of any class of such company (or of any third company through which his interest or that of his close associates is derived);
- (e) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:
  - (i) the adoption, modification or operation of any employees' share incentive or share option scheme under which the Director or his close associate(s) may benefit; or
  - (ii) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his close associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or
- (f) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer.

**(c) Alterations to the constitutional documents and the Company's name**

The Memorandum may, with the consent of the Minister of Finance of Bermuda (if required), be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the approval of the Company in general meeting. The Bye-laws state that a special resolution is required to alter the Memorandum, to approve any amendment of the Bye-laws or to change the name of the Company.

**(d) Meetings of shareholders**

**(i) Special resolutions**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast of such shareholders as, being entitled so to do, vote

in person or, where a corporate representative is allowed, by a duly authorized corporate representative or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

**(ii) Voting rights and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting: (a) on a poll, every shareholder present in person or by a duly authorized corporate representative or by proxy shall have one vote for every share of which he is the holder which is fully paid up or credited as fully paid (but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share); and (b) on a show of hands every shareholder who is present in person or by a duly authorized corporate representative or by proxy shall have one vote and the chairman of the meeting shall determine which proxy shall be entitled to vote where a Shareholder (other than the Depository) is represented by two or more proxies. On a poll, a shareholder entitled to more than one vote need not use all his votes or cast all the votes in the same way.

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye laws, all resolutions put to the vote at any general meeting shall be decided by way of poll (unless otherwise permitted by the Designated Stock Exchange). Where a show of hands is permitted, a poll may be demanded by: (i) by the chairman of such meeting; or (ii) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or (iii) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and representing not less than one tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or (iv) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all shares conferring that right; or (v) where the Depository or a clearing house is a Shareholder, by at least three proxies representing the Depository or a clearing house.

To the extent permitted by the Companies Act, where a Shareholder is the Depository (or its nominee) or a clearing house, in each case being a corporation, it may authorize such persons as it thinks fit to act as its proxies or representatives at any meeting of the Company or at any meeting of any class of Shareholders

provided that the authorization shall specify the number and class of shares in respect of which each such proxies or representative is so authorized. Each person so authorized shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Depository (of its nominee) or the clearing house as if such person was the registered holder of the shares of the Company held by the Depository (or its nominee) or the clearing house in respect of the number and class of shares specified in the relevant authorization including, where a show of hands is allowed, the right to vote individually on a show of hand.

**(iii) Annual general meetings**

An annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting unless a longer period would not infringe the rules or regulations of the Designated Stock Exchange, if any.

**(iv) Notices of meetings and business to be conducted**

An annual general meeting of the Company and a general meeting (including a special general meeting) at which the passing of a special resolution is to be considered shall be called by at least 21 clear days' notice or 20 clear business days' notice (whichever is longer) in writing and any other general meetings (including all other special general meetings) shall be called by at least 14 clear days' notice or 10 clear business days' notice (whichever is longer) in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice shall specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

Any notice from the Company to a Shareholder shall be given in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and (where appropriate) any other document may be served or delivered by the Company on or to any Shareholder either personally or by sending it through the post in a prepaid envelope addressed to such Shareholder at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the notice being duly received by the Shareholder or may also be served by advertisement in appointed newspapers (as defined in the

Companies Act) or in newspapers published daily and circulating generally in the territory of and in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by publishing it on the Company's website or the website of the Designated Stock Exchange, and giving to the Shareholder a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Shareholder by any of the means set out above other than by posting it on a website.

(v) **Quorum for meetings and separate class meetings**

The quorum for a general meeting shall be two shareholders present in person or by a duly authorized corporate representative or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall be two persons holding or representing by proxy or by a duly authorized corporate representative one-third in nominal value of the issued shares of that class.

(vi) **Proxies**

Any Shareholder entitled to attend and vote at a general meeting of the Company who is the holder of two or more shares shall be entitled to appoint not more than two proxies to attend and vote instead of him at the same general meeting provided that if the Shareholder is the Depository or a clearing house:-

- (a) the Depository or a clearing house may appoint more than two proxies to attend and vote at the same general meeting and each proxy shall be entitled to exercise the same powers on behalf of the Depository or a clearing house as the Depository or a clearing house could exercise, including the right to vote individually on a show of hands;
- (b) unless the Depository or a clearing house specifies otherwise in a written notice to the Company, the Depository or a clearing house shall be deemed to have appointed as the Depository's or a clearing house's proxies to vote on behalf of the Depository or a clearing house at a general meeting of the Company each of the Depositors who are individuals and whose names are shown in the records of the Depository or clearing house seventy-two (72) hours prior to the time of the relevant general meeting supplied by the Depository or a clearing house to the Company and notwithstanding any other provisions in the Bye-laws, such appointment of proxies shall not require an instrument of proxy or the lodgment of any instrument of proxy;

- (c) the Company shall accept as valid in all respects the form of instrument of proxy approved by the Depository or clearing house (the "Proxy Form") for use at the date relevant to the general meeting in question naming a Depositor (the "Nominating Depositor") and permitting that Nominating Depositor to nominate a person or persons other than himself as the proxy or proxies appointed by the Depository or a clearing house;
- (d) the Company shall reject any Proxy Form of a Nominating Depositor if his name is not shown in the records of the Depository or a clearing house seventy-two (72) hours prior to the time of the relevant general meeting supplied by the Depository or a clearing house to the Company; and
- (e) on a poll the maximum number of votes which a Depositor, or proxies appointed pursuant to a Proxy Form in respect of that Depositor, is able to cast shall be the number of shares credited to the Securities Account (as defined in the Bye-laws) of that Depositor as shown in the records of the Depository or a clearing house seventy-two (72) hours prior to the time of the relevant general meeting supplied by the Depository or a clearing house to the Company, whether that number is greater or smaller than the number specified in any Proxy Form or instrument of proxy executed by or on behalf of the Depository or a clearing house.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorized officer or attorney.

The instrument appointing a proxy to vote at a general meeting shall: (i) be deemed to confer authority upon the proxy to demand or join in demanding a poll and to vote on any resolution (or an amendment to any resolution) put to the meeting for which it is given as the proxy thinks fit; and (ii) unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates. Instruments of proxy shall be in any usual or common form (including any form approved from time to time by the Depository or a clearing house) or in such other form as the Board may approve (provided that this shall not preclude the use of the two way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting.

A proxy or proxies representing either an individual shareholder or a shareholder which is a corporation shall be entitled to exercise the same powers on behalf of the shareholder which he or they represent as such shareholder could exercise, including the right to vote individually on a show of hands.



**(e) Accounts and audit**

The Board shall cause to be kept proper records of account with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt and expenditure takes place; all sales and purchases of goods by the Company; the assets and liabilities of the Company; and all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The records of account shall be kept at the registered office of the Company or, subject to the Companies Act, at such other place or places as the Board decides and shall always be open to inspection by the Directors. No Shareholder (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorized by the Board or the Company in general meeting.

A copy of the balance sheet and profit and loss account which is to be laid before a general meeting of the Company, made up to the end of the applicable financial year and including every document and all documents and information as required by the Statutes (as defined in the Bye-laws) to be annexed thereto ("Financial Statements"), together with a copy of the auditors' report and of the Directors' report, shall be delivered or sent by post to each person entitled thereto (the "Entitled Persons") at least twenty-one (21) days before the date of the general meeting.

At each annual general meeting, the Shareholders shall appoint an auditor to hold office until the close of the next annual general meeting, and if an appointment is not so made, the auditor in office shall continue in office until a successor is appointed.

**(f) Dividends and other methods of distribution**

The Board may, subject to the Bye-laws and in accordance with the Companies Act, declare a dividend in any currency to be paid to the Shareholders and such dividend may be paid in cash or wholly or partly in specie in which case the Board may fix the value for distribution in specie of any assets. The Board may declare and make such other distributions (in cash or in specie) to the Shareholders as may be lawfully made out of the assets of the Company. The Company in general meeting may also declare a dividend or such other distribution to be paid to the Shareholders but no dividend or distribution shall be declared by the Company in general meeting in excess of the amount recommended by the Board.

Unless and to the extent that the rights attached to any shares or the terms of their issue otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid up on the shares during any portion or portions of the

period in respect of which the dividend is paid. No amount paid upon a share in advance of calls will for this purpose be treated as paid up on the shares. The Board may deduct from any dividend or other moneys payable to a Shareholder by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board thinks fit. The Company may also, upon the recommendation of the Board, by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to the Company. The payment by the Board of any unclaimed dividend or other sums payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.

The Company may exercise the power to cease sending checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions or after the first occasion on which such a check or warrant is returned undelivered.

**(g) Inspection of register of members**

The Bermuda principal register of members and branch register of members, as the case may be, shall be open to inspection between 10.00 a.m. and 12.00 noon on every business day by Shareholders without charge or by any other person, upon a maximum payment of five Bermuda dollars (BD\$5.00), at the Company's registered office or such other place in Bermuda at which the principal register of members is kept in accordance with the

Companies Act or, if appropriate, upon a maximum payment of ten Singapore dollars (S\$10.00) at the Registration Office or at the office of a share transfer agent of the Company.

**(h) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, Bermuda company law provides for protection of minorities, as summarized in paragraph 3(o) of this Appendix.

**(i) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the sanction of a special resolution, divide among the shareholders in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division is to be carried out as between the shareholders or different classes of shareholders and the shareholders within each class. The liquidator may, with like sanction, vest any part of the assets in trustees upon such trusts for the benefit of shareholders as the liquidator thinks fit, but so that no shareholder shall be compelled to accept any shares or other assets upon which there is a liability.

**(j) Untraceable shareholders**

The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a shareholder who is untraceable, but no such sale shall be made unless:

- (i) all checks or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorized by the Bye-Laws of the Company have remained uncashed;
- (ii) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the shareholder who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and

- (iii) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Designated Stock Exchange to be made of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three (3) months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.

### 3. BERMUDIAN PROVISIONS

Certain provisions of Bermuda company law are set out below but this summary does not purport to contain all applicable qualifications and exemptions or to be a complete review of all matters of Bermuda company law or a comparison of provisions that may differ from the laws of other jurisdictions with which interested parties may be more familiar.

#### (a) Incorporation

The Company was incorporated by registration pursuant to the provisions of the Companies Act on August 22, 2003. The Company was brought into existence by depositing its Memorandum with the Registrar of Companies in Bermuda (the “Registrar”).

#### (b) Constituent Documents

The business activities of a Bermudian company are governed by the provisions of its memorandum of association which sets out its specific business objects and the powers that may be exercised in support of its principal business objects. Bermuda law distinguishes between objects and powers, the latter being regarded as supplemental to the principal business objects.

The objects set out or included by reference in the different paragraphs of the objects clause in a company’s memorandum of association shall not, unless otherwise stated, be limited or restricted in any way by reference to or inference from the terms of any other paragraph in the memorandum of association of the Company and such objects may be carried out in as full and ample a manner and construed in such a manner as if each paragraph defined the objects of a separate and independent company and each is construed as a primary object.

A company may, by resolution passed at a general meeting of shareholders of which due notice has been given, alter its memorandum of association. After approval of the alteration by the shareholders in general meeting, certain filings must be made with the

Registrar. It is also necessary to obtain the Minister of Finance (**Minister**)'s consent to the alteration if the company carries on any "restricted business activity" as defined in the Companies Act.

The bye-laws govern a company's administration and the relationship between its shareholders and its board of directors, and are required to make provision for certain limited matters.

The shareholders of a company are entitled to receive copies of the company's memorandum of association and bye-laws upon request. Each person who agrees to become a shareholder of a company and whose name is entered in the register of members is deemed to be a shareholder of the company.

**(c) Taxation**

In Bermuda there are no taxes on profits, income or dividends, nor is there any capital gains tax, estate duty or death duty. Profits can be accumulated and it is not obligatory for a company to pay dividends. Companies are required to pay an annual government fee (the "Government Fee"), which is determined on a sliding scale by reference to a company's authorized share capital and share premium account, with the minimum fee being BD\$2,095 and the maximum fee being BD\$32,676 (the Bermuda dollar is treated at par with the U.S. dollar). The Government Fee is payable at the end of January in every year and is based on the authorized share capital and share premium account as they stood at August 31, in the preceding year.

The Minister is authorized to give an assurance to an exempted company or a partnership that, in the event of there being enacted in Bermuda any legislation imposing tax on profits, income or computed on any capital asset, gain or appreciation, then the imposition of any such tax shall not be applicable to such entity or any of its operations. In addition, there may be included an assurance that any such tax, or any tax in the nature of estate duty or inheritance tax, shall not be applicable to the shares, debentures or other obligations of such entity. This assurance has been obtained by the Company for a period ending March 31, 2035.

**(d) Stamp duty**

Stamp duty is not chargeable in respect of the incorporation, registration or licensing of an exempted company, nor, subject to certain minor exceptions, on its transactions. Accordingly, no stamp duty will be payable on the increase in or the issue or transfer of the share capital of the Company.

**(e) Prospectus issues and public offers**

Save as described below, before or as soon as reasonably practicable after an offer of shares by a company to the public (as defined in the Companies Act), the company must publish, in writing, a prospectus signed by or on behalf of all its directors and file a copy of that prospectus with the Registrar. A certificate, signed by an attorney in Bermuda, must be filed with the prospectus, certifying that the prospectus contains certain particulars required by the Companies Act and is accompanied by a written statement from the auditor of the company in which the auditor confirms his consent to the inclusion of his report in the prospectus to be issued by the company. It is not necessary for a company to publish and file a prospectus at any time or in any circumstances, where:

- (i) the shares are listed on an appointed stock exchange, or an application has been made for the shares to be so listed, and the rules of the appointed stock exchange do not require the company to publish and file a prospectus at such time or in such circumstances;
- (ii) the company is subject to the rules or regulations of a competent regulatory authority and such rules or regulations do not require the company to publish and file a prospectus at such time or in such circumstances, except where exemption from publication and filing of a prospectus is given by reason of the offer being made only to persons who are resident outside the jurisdiction of the authority; or
- (iii) an appointed stock exchange or any competent regulatory authority has received or otherwise accepted a prospectus or other document in connection with the offer of shares to the public.

A number of stock exchanges and regulatory authorities have been approved by the Minister and designated as appointed stock exchanges and competent regulatory authorities, including The Stock Exchange of Hong Kong Limited and the Hong Kong Securities Futures Commission, respectively.

**(f) Exchange control**

Although incorporated in Bermuda, the Company has been classified as non-resident in Bermuda for exchange control purposes by the Bermuda Monetary Authority (“BMA”). Accordingly, the Company may convert currency (other than Bermudian currency) held for its account to any other currency without restriction.

Persons, firms or companies regarded as residents of Bermuda for exchange control purposes require specific consent under the Exchange Control Act 1972 of Bermuda, and

regulations thereunder, to purchase or sell shares or warrants of a non-resident company such as the Company which are regarded as foreign currency securities by the BMA. Where any equity securities of a Bermudian company are listed on an appointed stock exchange (which includes The Stock Exchange of Hong Kong Limited), general permission is given for the issue and subsequent transfer of any securities of the company from and/or to a non-resident of Bermuda, for as long as any equity securities of the company remain so listed.

In granting such permission, the BMA accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in this document with regard to them.

**(g) Share capital**

Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium on those shares shall be transferred to an account, to be called “the share premium account” and the provisions of the Companies Act relating to a reduction of share capital of a company shall, except in limited circumstances, apply as if the share premium account were paid up share capital of the company. An exception is made to this rule in the case of an exchange of shares where the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

A company may issue preference shares and under certain circumstances to convert those preference shares into redeemable preference shares.

**(h) Alteration of share capital**

A company may, if authorized by a general meeting of its shareholders and by its bye-laws, alter the conditions of its memorandum of association to increase its share capital, divide its shares into several classes and attach to those shares any preferential, deferred, qualified or special rights, privileges or conditions, consolidate or divide all or any of its share capital into shares of a larger amount than its existing shares, subdivide its shares or any of them into shares of a smaller amount than is fixed by the memorandum of association, make provision for the issue and allotment of shares which do not carry any voting rights, cancel shares which have not been taken or agreed to be taken by any person, diminish the amount of its share capital by the amount of the shares so canceled and change the currency denomination of its share capital. With the exception of an increase of capital, cancellation of shares and redenomination of currency of capital, there are no filing requirements for any such alterations.

Furthermore a company may, if authorized by a general meeting of its shareholders, reduce its share capital. There are certain requirements, including a requirement before

the reduction to publish a notice in an appointed newspaper stating the amount of the share capital as last determined by the company, the amount to which the share capital is to be reduced and the date on which the reduction is to have effect. A company is not permitted to reduce the amount of its share capital if on the date the reduction is to be effected there are reasonable grounds for believing that the company is, or after the reduction would be, unable to pay its liabilities as they become due.

The Companies Act includes certain protections for holders of special classes of shares requiring their consent to be obtained before their rights may be varied.

As soon as practicable after the allotment of any of its shares, a company must complete and have ready for delivery share certificates in relation to those shares unless the conditions of issue of the shares provide otherwise. A certificate under the common seal of the company shall be prima facie evidence of the title of the shareholder to the shares. A company is not permitted to allot and issue bearer shares.

**(i) Purchase by a company of its own shares**

If authorized to do so by its memorandum of association or its bye-laws, a company may purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares, out of the funds of the company which would otherwise be available for dividend or distribution (see “Dividends” below) or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase. Any premium payable on a repurchase over the par value of the shares to be repurchased must be provided for out of the funds of the company which would otherwise be available for dividends or distribution or out of the company’s share premium account before the shares are repurchased. A purchase by a company of its own shares may be authorized by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Further, any amount due to a shareholder of the company whose shares are repurchased may be satisfied by cash and/or the transfer of any part of the undertaking or property of the company or a combination of them.

No purchase by a company of its own shares may be effected if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due.

Shares purchased by the Company may be held as treasury shares pursuant to section 42B of the Companies Act or to be cancelled pursuant to section 42A(6) of the Companies Act.

If the Company holds shares as treasury shares, the Company shall be entered in the register of members under as the Shareholder holding such shares and the Company shall not exercise any rights in respect of those shares, including any right to attend and vote at meetings and any purported exercise of such a right is void.



The shares purchased pursuant to section 42A of the Companies Act shall be treated as canceled and the amount of the company's issued capital shall be diminished by the nominal value of those shares accordingly. It shall not be taken as reducing the amount of the company's authorized share capital.

A company is not prevented from purchasing and may purchase its own warrants. There is no requirement of Bermuda law that the memorandum of association or the bye-laws contain a specific enabling provision authorizing any such purchase and the directors may rely upon the general power to buy and sell and deal in personal property of all kinds.

**(j) Dividends and distributions**

A company shall not declare or pay a dividend or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Contributed surplus for these purposes is defined as including proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital, the excess value of shares acquired over those issued in a share exchange should the board of directors elect to treat it as such and donations of cash and other assets to the company.

**(k) Charges on the assets of a company**

The Companies Act established a register of charges at the office of the Registrar permitting any charges on the assets of a company to be registered. Registration is not mandatory but does govern priority in Bermuda, giving a registered charge priority over any subsequently registered charge and over all unregistered charges save those in effect prior to the coming into effect of the Companies Act in July of 1983. The register of charges is available for inspection by shareholders of the public. A series of debentures may also be registered.

**(l) Management and administration**

The management and administration of a Bermuda company shall be vested in the hands of not less than one director duly elected by the shareholders.

The Companies Act requires that a Bermudian company maintains: (a) at least one director (other than an alternate director) who is ordinarily resident in Bermuda; or (b) a

secretary or a resident representative which is either an individual or a company ordinarily resident in Bermuda.

The Companies Act contains no specific restrictions on the power of the directors of a company to resolve to dispose of assets of the company although it specifically requires that every officer of a company, in exercising his powers and discharging his duties, shall act honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore every officer is required to comply with the Companies Act, regulations passed pursuant to the Companies Act and the company's bye-laws.

**(m) Loans to directors**

A company is not permitted to make loans to any person who is its director or a director of its holding company or to their families or companies in which they hold a 20% interest, without the consent of shareholders of the company holding in aggregate not less than nine-tenths of the total voting rights of all shareholders having the right to vote at any meeting of the shareholders of the company. These prohibitions do not apply to anything done to provide a director with funds to meet expenditure incurred or to be incurred by him for the purposes of the company or for the purpose of enabling him properly to perform his duties as an officer of the company, provided that the company gives its prior approval at a general meeting at which the purpose of the expenditure and the amount of the loan are disclosed or, if not, the loan is made on condition that it shall be repaid within six months of the next annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorized it will be jointly and severally liable to indemnify the company against any loss arising therefrom.

**(n) The investigation of the affairs of a company and the protection of minorities**

The Minister may, at any time of his own volition, appoint one or more inspectors to investigate the affairs of an exempted company and to report on that investigation in such manner as he may direct. Such an investigation shall be made in private unless the company requests that it be held in public. Furthermore, if any shareholder of a company complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the shareholders or a report has been made to the Minister pursuant to an investigation, the Registrar on behalf of the Minister may make an application to the court. If the court is of the opinion that the company's affairs are being, or have been, conducted in a manner oppressive or prejudicial to the interests of some part of the shareholders and that to wind up the company would unfairly prejudice that part of the shareholders but otherwise the facts

would justify the making of a winding up order on the ground that it would be just and equitable that the company should be wound up, then it may make such order as it thinks fit whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any shareholders of the company by other shareholders of the company or by the company and, in the case of a purchase by the company, for the reduction accordingly of the company's capital, or otherwise.

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda; however, the Bermudian courts ordinarily would expect to follow English case law precedent which would permit a shareholder to commence an action in the name of the company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

In addition to the above, shareholders may be able to bring claims against a company; such claims must, however, be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers to shares of a company against persons (including directors and officers) responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement in that prospectus but this confers no right of action against the company itself. In addition, the company may take action against the officers for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company. Furthermore, a subscriber is not debarred from obtaining damages or other compensation from the company by reason only of his holding or having held shares in the company or any right to apply or subscribe for shares or to be included in the company's register of members in respect of shares.

**(o) Inspection of corporate records**

Shareholders of the general public have the right to inspect the public documents of a company available at the office of the Registrar, which include the company's certificate of incorporation, its memorandum of association and any alteration to the memorandum of association and documents relating to an increase or reduction of authorized capital. The shareholders have the additional right to inspect the bye-laws, minutes of general meetings and audited financial statements of the company, which must be presented to the annual general meeting of shareholders.

A company is required to maintain its share register in Bermuda but may establish a branch register outside Bermuda. The register of members of the company and any branch register are also open to inspection by shareholders without charge, and to general shareholders of the public for a fee. Where a shareholder of the company or other person requests a copy of the register of members or branch register, this must be provided within 14 days of the request. Each company is required to keep at its registered office a register of its directors and officers which is open for inspection by shareholders of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records.

**(p) Restrictions on the activities of exempted companies**

Unless specifically authorized by its memorandum of association, an exempted company is not permitted to acquire, hold or take a mortgage of land in Bermuda (subject to certain exceptions), or acquire any bonds or debentures secured on any land in Bermuda except for bonds or debentures issued by the government or a public authority in Bermuda.

Exempted companies are specifically permitted to carry on business with persons outside Bermuda or to do business in Bermuda with an exempted company in furtherance only of the business of the exempted company carried on outside Bermuda. It may buy, sell or otherwise deal in shares, bonds, debenture stock obligations, mortgages or other securities issued or created by an exempted undertaking or a local company or any partnership which is not an exempted undertaking. It may transact banking business with a bank licensed in Bermuda. It may effect or conclude contracts in Bermuda and exercise in Bermuda all other powers so far as may be necessary for carrying on its business with persons outside Bermuda. It may act as manager or agent for or consultant or advisor to the business of another exempted company, provided that other company has an object in its memorandum of association to enable it to carry on such type of business.

The Company has been incorporated as an “exempted company”. Accordingly, the Company is authorized to carry on business outside Bermuda from a place of business in Bermuda but may not, without a specific license granted by the Minister, conduct business within Bermuda. The Company is, therefore, permitted to establish a place of business in Bermuda in order to conduct business outside Bermuda or with other exempted companies in Bermuda. However, it may not engage in trading or other business activities in Bermuda. Furthermore, as an exempted company, the Company has been designated as “non-resident” for exchange control purposes and is authorized to deal in any currency of its choosing, other than Bermuda dollars.

**(q) Accounting and auditing requirements**

A company shall cause to be kept proper records of account with respect to: (i) all sums of money received and expended by the company; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

The records of account shall be kept at the registered office of the company or at such other place as the directors of the company think fit and shall at all times be open to inspection by the directors or by a resident representative. These records of account shall also be maintained at the office of the resident representative if the company has appointed such a resident representative. If the records of account are kept at some place outside Bermuda, there shall be kept at an office of the company in Bermuda such records as will enable the directors or the resident representative to ascertain with reasonable accuracy the financial position of the company at the end of each three month period (or each six month period, where the company is listed on an appointed stock exchange). Power is vested in the courts of Bermuda to order the company to make available the records of account to any of the directors should the company for some reason refuse to do so.

The board of every company shall, at least once in every year, lay before the company in general meeting: (i) financial statements for the period (the details of which are prescribed in the Companies Act); (ii) the report of the auditor in respect of the financial statements; and (iii) the notes to the financial statements, which shall include a description of the generally accepted accounting principles used in the preparation of the financial statements and, where the accounting principles used are those of a country or jurisdiction other than Bermuda, shall disclose this fact and name the country or jurisdiction.

The financial statements to be laid before the shareholders in general meeting shall be signed on the balance sheet by a director of the company.

If for some reason it becomes impossible, for reasons beyond the reasonable control of the directors, to lay the financial statements before the shareholders, it shall be lawful for the chairman of the meeting to adjourn the meeting for a period of up to 90 days or such longer period as the shareholders may agree.

All shareholders of a company are entitled to receive a copy of the financial statements prepared in accordance with the requirements described above, at least seven days before the general meeting of the company at which the financial statements would be tabled.

Companies listed on an appointed stock exchange may send summarized financial statements instead of the unabridged financial statements mentioned above. Each

shareholder can elect to receive unabridged financial statements for that period and/or any subsequent period. The summarized financial statements together with the auditors report and notice to elect to receive the unabridged financial statements must be sent to shareholders 21 days before the general meeting. A company shall send the full financial statements to a shareholder within seven days of receipt of the shareholder's election to receive the full financial statements.

The summarized financial statements must be derived from the company's financial statements and shall include: (a) a summarized report of the unabridged financial statements; (b) such further information extracted from the financial statements as the board of directors considers appropriate; and (c) a statement that it is only a summarized version of the company's financial statements

There are certain exceptions in the case of shareholders not entitled to receive notices of general meetings, joint holders of shares or where the address for a person is not known to the company.

The shareholders in general meeting have the power to waive the laying of the financial statements and auditors' report and to waive the appointment of an auditor if all the shareholders and directors of the company agree, either in writing or at a general meeting, that in respect of a particular interval no financial statement or auditors' report need be laid before a general meeting.

The Companies Act contains specific requirements in relation to the appointment and disqualification of an auditor.

**(r) Continuation and discontinuation of companies**

- (i) A company incorporated outside Bermuda may be continued in Bermuda as an exempted company to which the provisions of the Companies Act and any other relevant laws of Bermuda may apply. The consent of the Minister will be required if the company's memorandum of continuance includes special objects enabling it to carry on any "restricted business activity" as defined in the Companies Act; and
- (ii) an exempted company may be continued in a country or jurisdiction outside Bermuda as if it had been incorporated under the laws of that other jurisdiction and be discontinued under the Companies Act, provided that, inter alia, it is an appointed jurisdiction pursuant to the Companies Act, or has been approved by the Minister, upon application by the company for the purpose of the discontinuance of the company out of Bermuda.

(s) **Winding-up and liquidation**

(i) **Introduction:**

The winding-up of Bermudian companies is governed by the provisions of the Companies Act and by the Companies (Winding-Up) Rules 1982 (the “Rules”) and may be categorized as either into a voluntary winding up or a compulsory winding-up.

(ii) **Voluntary Winding-Up:**

(aa) **Members’ Voluntary Winding-up** — A members’ voluntary winding-up is only possible if a company is solvent. A statutory declaration of solvency to the effect that a company is able to meet its debts within 12 months from the date of the commencement of its winding-up is sworn by a majority of the company’s directors and filed with the Registrar.

A general meeting of members is then convened which resolves that the company be wound-up voluntarily and that a liquidator be appointed.

Once the affairs of the company are fully wound-up, the liquidator prepares a full account of the liquidation which he then presents to the company’s members at a special general meeting called for that purpose. This special general meeting must be advertised in an appointed newspaper in Bermuda at least one month before it is held. Within one week after this special general meeting is held, the liquidator shall notify the Registrar that the company has been dissolved.

(bb) **Creditors’ Voluntary Winding-up** — A creditors’ voluntary winding-up may occur where a company is insolvent and a statutory declaration of solvency cannot be sworn.

A board meeting is convened which resolves to recommend to the members of the company that the company be placed into a creditors’ voluntary winding-up. This recommendation is then considered and, if thought fit, approved at a special general meeting of the company’s members and, subsequently, at a meeting of the company’s creditors.

Notice of the creditors’ meeting must appear in an appointed newspaper on at least two occasions and the directors must provide this meeting with a list of the company’s creditors and a full report of the position of the company’s affairs.

At their respective meetings, the creditors and members are entitled to nominate a person or persons to serve as liquidator(s). In addition, the creditors are entitled to appoint a committee of inspection which, under Bermuda law, is a representative body of creditors who assist the liquidator during the liquidation.

As soon as the affairs of the company are fully wound-up, the liquidator prepares his final account explaining the liquidation of the company and the distribution of its assets which he then presents to the company's members in a special general meeting and to the company's creditors in a meeting. Within one week after the last of these meetings, the liquidator sends a copy of the account to the Registrar who proceeds to register it in the appropriate public records and the company is deemed dissolved three months after the registration of this account.

**(iii) Compulsory Winding-Up:**

The courts of Bermuda may wind-up a Bermudian company on a petition presented by persons specified in the Companies Act, which include the company itself and any creditor or creditors of the company (including contingent or prospective creditors) and any member or members of the company.

Any such petition must state the grounds upon which the Bermudian court has been asked to wind-up the company and may include any of the following:

- (aa) that the company has by resolution resolved that it be wound-up by the Bermudian court;
- (bb) that the company is unable to pay its debts; and
- (cc) that the Bermudian court is of the opinion that it is just and equitable that the company be wound-up.

The winding-up petition seeks a winding-up order and may include a request for the appointment of a provisional liquidator.

Prior to the winding-up order being granted and the appointment of the provisional liquidator, an interim provisional liquidator may be appointed to administer the affairs of the company with a view to its winding-up until he is relieved of these duties by the appointment of the provisional liquidator.



As soon as the winding-up order has been made, the provisional liquidator summons separate meetings of the company's creditors and members in order to determine whether or not he should serve as the permanent liquidator or be replaced by some other person who will serve as the permanent liquidator and also to determine whether or not a committee of inspection should be appointed and, if appointed, the members of that committee. The provisional liquidator notifies the court of the decisions made at these meetings and the court makes the appropriate orders.

A permanent liquidator's powers are prescribed by the Companies Act. His primary role and duties are the same as a liquidator in a creditors' voluntary winding-up, namely to distribute the company's assets ratably amongst its creditors whose debts have been admitted.

As soon as the affairs have been completely wound-up, the liquidator applies to the courts of Bermuda for an order that the company be dissolved and the company shall be dissolved from the date of this order being made.

**(t) General**

Appleby, the Company's legal advisers on Bermudian law, have sent to the Company a letter of advice summarizing aspects of Bermudian company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in Appendix VII. Any person wishing to have a detailed summary of Bermudian company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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## **APPENDIX IV MAJOR DIFFERENCES BETWEEN CERTAIN APPLICABLE HONG KONG AND SINGAPORE LAWS AND REGULATION**

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The Shares are currently listed on the Mainboard of the SGX-ST and our Company intends to list our Shares on the Main Board of the Hong Kong Stock Exchange. Our Company sets out below a summary of the major differences between the Hong Kong Listing Rules and the Listing Manual, certain applicable laws and regulations of Singapore and Hong Kong, the takeover rules under the Singapore Code on Take-overs and Mergers, the HK Takeovers Code and certain relevant legislations concerning companies with listed securities.

However, this summary is for general guidance only and is not and shall not be relied on as legal advice or any other advice to Shareholders. The summary is not meant to be a comprehensive or exhaustive description of all the relevant Singapore and Hong Kong laws, rules and regulations. In addition, Shareholders should also note that the laws, rules and regulations applicable to our Company and Shareholders may change, whether as a result of proposed legislative reforms to the Singapore or Hong Kong laws, rules or regulations or otherwise.

Prospective investors and/or Shareholders should consult their own legal advisors for specific legal advice concerning their legal rights and obligations under Singapore laws and Hong Kong laws. In the event of any conflict between the Hong Kong Listing Rules and the Listing Manual, our Company shall comply with the more restrictive and stringent rule. The Joint Sponsors and our Directors are not aware of any major conflicts between the Hong Kong Listing Rules and the Listing Manual, which may cause difficulties to our Company to comply with the rules under both regimes.

### **I. SUMMARY OF THE MAJOR DIFFERENCES BETWEEN THE HONG KONG LISTING RULES AND THE LISTING MANUAL AND CERTAIN APPLICABLE SINGAPORE AND HONG KONG LAWS**

#### **HONG KONG LISTING RULES AND HONG KONG LAWS REPORTING REQUIREMENTS**

1. Issuers in Hong Kong are required to comply with disclosure obligations under the Hong Kong Listing Rules upon the occurrence of the events which are prescribed under such rules.  
  
Our Company must announce any information released to SGX-ST on the website of the Hong Kong Stock Exchange at the same time as the information is released to SGX-ST.

#### **LISTING MANUAL AND SINGAPORE LAWS**

Issuers in Singapore are required to comply with disclosure obligations under the Listing Manual upon the occurrence of the events which are prescribed in the Listing Manual.  
  
In the case that our Company makes a disclosure pursuant to Singapore laws, it will make the same disclosure in Hong Kong.

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**Chapter 13 of the Hong Kong Listing Rules (Continuing Obligations)**

**Rule 13.09, Hong Kong Listing Rules: General Obligation of Disclosure**

- (1) Without prejudice to Rule 13.10 of the Hong Kong Listing Rules, where in the view of the Hong Kong Stock Exchange there is or there is likely to be a false market in an issuer's securities, the issuer must, as soon as reasonably practicable after consultation with the Hong Kong Stock Exchange, announce the information necessary to avoid a false market in its securities.

**Notes:**

- (i) This obligation exists whether or not the SEHK makes enquiries under Rule 13.10 of the HK Listing Rules.
- (ii) If an issuer believes that there is likely to be a false market in its listed securities, it must contact the SEHK as soon as reasonably practicable.
- (2) (a) Where an issuer is required to disclose inside information under the Inside Information Provisions (as defined in the Hong Kong Listing Rules), it must also simultaneously announce the information.
- (b) An issuer must simultaneously copy to the SEHK any application to the SFC for a waiver from disclosure under the Inside Information Provisions, and promptly upon being notified of the SFC's decision copy of the SEHK with the SFC's decision.

**Chapter 7 of the Listing Manual (Continuing Obligations)**

**Rule 703, Listing Manual: Disclosure of Material Information**

- (1) An issuer must announce any information known to the issuer concerning it or any of its subsidiaries or associated companies which:
- (a) is necessary to avoid the establishment of a false market in the issuer's securities; or
- (b) would be likely to materially affect the price or value of its securities.
- (2) Rule 703(1) does not apply to information which it would be a breach of law to disclose.
- (3) Rule 703(1) does not apply to particular information while each of the following conditions applies:-
- Condition 1: a reasonable person would not expect the information to be disclosed;
- Condition 2: the information is confidential; and
- Condition 3: one or more of the following applies:
- (a) the information concerns an incomplete proposal or negotiation;
- (b) the information comprises matters of supposition or is insufficiently definite to warrant disclosure;
- (c) the information is generated for the internal management purposes of the entity; and/or
- (d) the information is a trade secret.

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**Rule 13.10B, Hong Kong Listing Rules:  
Announce Information Disclosed to  
Other Stock Exchanges**

An issuer must announce any information released to any other stock exchange on which its securities are listed at the same time as the information is released to that other exchange.

**Rule 13.51, Hong Kong Listing Rules:  
Notification on Changes**

An issuer must publish an announcement as soon as practicable in regard to:

- (1) any proposed alteration of the issuer's memorandum or articles of association or equivalent documents;
- (2) any changes in its directorate or supervisory committee, and shall procure that each new director or supervisor or member of its governing body shall sign and lodge with the Hong Kong Stock Exchange as soon as practicable after their appointment a declaration and undertaking in the form set out in Form B, H or I, where applicable, in Appendix 5 to the HK Listing Rules. Where a new director, supervisor or chief executive is appointed or the resignation, re-designation, retirement or removal of a director, supervisor or chief executive takes effect, the issuer must announce the

(4) In complying with the SGX-ST's disclosure requirements, an issuer must:

- (a) observe the Corporate Disclosure Policy set out in Appendix 7.1 of the Listing Manual; and
- (b) ensure that its directors and executive officers are familiar with the SGX-ST's disclosure requirements and Corporate Disclosure Policy.

(5) The SGX-ST will not waive any requirements under this Rule.

**Rule 704, Listing Manual: Announcement of  
Specific Information**

In addition to Rule 703, an issuer must immediately announce the following:-

**General**

- (1) Any change of address of the registered office of the issuer or of any office at which the register of members or any other register of securities of the issuer is kept.
- (2) Any proposed alteration to the memorandum of association or articles of association or constitution of the issuer (note also that Rule 730 requires issuers to seek the SGX-ST's approval for any alteration to their articles or constituent documents).
- (4) Any call to be made on partly paid securities of the issuer or of any of its principal subsidiaries.
- (5) Any qualification or emphasis of a matter by the auditors on the financial statements of:-
  - (a) the issuer; or

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change as soon as practicable and include the details required pursuant to Rule 13.51(2) of the Hong Kong Listing Rules of any newly appointed or re-designated director, supervisor or chief executive in the announcement;

- (3) any change in the rights attaching to any class of listed securities and any change in the rights attaching to any shares into which any listed debt securities are convertible or exchangeable;
  - (4) any change in its auditors or financial year end, the reason(s) for the change and any other matters that need to be brought to the attention of holders of securities of the issuer (including, but not limited to, information set out in the outgoing auditors' confirmation in relation to the change in auditors);
  - (5) any change in its secretary, share registrar (including any change in overseas branch share registrar) or registered address or where applicable, agent for the service of process in Hong Kong or registered office or registered place of business in Hong Kong;
  - (6) any change in its compliance adviser; and
  - (7) any revision of interim reports, annual reports or summary financial reports, the reason leading to the revision of published financial reports, and the financial impacts, if any.
- (b) any of the issuer's subsidiaries or associated companies, if the qualification or emphasis of a matter has a material impact on the issuer's consolidated accounts or the group's financial position.
  - (6) If an issuer has previously announced its preliminary full-year results, any material adjustment to the issuer's preliminary full year results made subsequently by auditors.

**Appointment or cessation of service**

- (7) (a) Any appointment or cessation of service of a key person such as a director, chief executive officer, chief financial officer, chief operating officer, general manager or other executive officer of equivalent authority, company secretary, registrar or auditors of the issuer. The announcement of an appointment or cessation of service of key persons such as director, chief executive officer, chief financial officer, chief operating officer, general manager or other executive officer of equivalent authority must contain the information contained in Appendix 7.4.1 or Appendix 7.4.2, as the case may be.

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**Rule 13.25A, Hong Kong Listing**

**Rules: Changes in Issued Shares**

- (1) In addition and without prejudice to specific requirements contained elsewhere in the Hong Kong Listing Rules, an issuer must, whenever there is a change in its issued shares as a result of or in connection with any of the events referred to in Rule 13.25A(2) of the Hong Kong Listing Rules, submit for publication on the SEHK's website a return in such form and containing such information as the Hong Kong Stock Exchange may from time to time prescribe by not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day next following the relevant event.
- (2) The events referred to in Rule 13.25A(1) of the Hong Kong Listing Rules are as follows:
- (a) any of the following:
- (i) placing;
  - (ii) consideration issue;
  - (iii) open offer;
  - (iv) rights issue;
  - (v) bonus issue;
  - (vi) scrip dividend;
  - (vii) repurchase of shares or other securities;
  - (viii) exercise of an option under the issuer's share
- (b) In the case of a cessation of service of any director, chief executive officer, chief financial officer, chief operating officer, general manager or other executive officer of equivalent authority, such persons must inform the SGX-ST in writing as soon as possible if he is aware of any irregularities in the issuer which would have a material impact on the group, including financial reporting.
- (8) Any appointment or reappointment of a director to the audit committee.
- (9) Any appointment of a person who is a relative of a director or chief executive officer or substantial shareholder of the issuer to a managerial position in the issuer or any of its principal subsidiaries.
- (10) Any promotion of an appointee referred to in Rule 704(9).
- (11) Any appointment of, or change in legal representative(s) (or person(s) of equivalent authority, however described), appointed as required by any relevant law applicable to the issuer and/or any of its principal subsidiaries, with sole powers to represent, exercise rights on behalf of, the issuer and/or that principal subsidiary.
- (12) For issuers with principal subsidiaries based in jurisdictions other than

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- option scheme by any of its directors;
- (ix) exercise of an option other than under the issuer's share option scheme by any of its directors;
- (x) capital reorganization; or
- (xi) change in issued shares not falling within any of the categories referred to in Rule 13.25A(2)(a)(i) to (x) or Rule 13.25A(2)(b) of the Hong Kong Listing Rules; and
- (b) Subject to Rule 13.25A(3) of the Hong Kong Listing Rules, any of the following:
- (i) exercise of an option under a share option scheme other than by a director of the issuer;
- (ii) exercise of an option other than under a share option scheme not by a director of the issuer;
- (iii) exercise of a warrant;
- (iv) conversion of convertible securities; or
- (v) redemption of shares or other securities.
- Singapore, any of its independent directors' appointment or cessation of service from the boards of these principal subsidiaries.
- (13) Within 60 days after each financial year, the issuer must make an announcement of each person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the issuer as set out in Appendix 7.2 Part II. If there are no such persons, the issuer must make an appropriate negative statement. The SGX-ST may require the issuer to provide additional information on any such person, including his remuneration, any changes to his duties, responsibilities and remuneration package.
- Appointment of Special Auditors**
- (14) The SGX-ST may require an issuer to appoint a special auditor to review or investigate the issuer's affairs and report its findings to the SGX-ST or the issuer's Audit Committee or such other party as the SGX-ST may direct. The issuer may be required by the SGX-ST to immediately announce the requirement, together with such other information as the SGX-ST directs. The issuer may be required by the SGX-ST to announce the findings of the special auditors.

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- (3) The disclosure obligation for an event in Rule 13.25A(2)(b) of the Hong Kong Listing Rules only arises where:
- (a) the event, either individually or when aggregated with any other events described in that rule which have occurred since the listed issuer published its last monthly return under Rule 13.25B of the Hong Kong Listing Rules or last return under this Rule 13.25A (whichever is the later) of the Hong Kong Listing Rules, results in a change of 5.0% or more of the listed issuer's issued shares; or
  - (b) an event in Rule 13.25A(2)(a) of the Hong Kong Listing Rules has occurred and the event in Rule 13.25A(2)(b) of the Hong Kong Listing Rules has not yet been disclosed in either a monthly return published under Rule 13.25B of the Hong Kong Listing Rules or a return published under this Rule 13.25A of the Hong Kong Listing Rules.
- (4) For the purposes of Rule 13.25A(3) of the Hong Kong Listing Rules, the percentage change in the listed issuer's issued shares is to be calculated by reference to the listed issuer's total number of issued shares as it was immediately before the earliest relevant event which has not been disclosed in a monthly return published under Rule 13.25B



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of the Hong Kong Listing Rules or a return published under this Rule 13.25A of the Hong Kong Listing Rules.

**Rule 13.25B, Hong Kong Listing Rules:  
Monthly Return**

A listed issuer shall, by no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the fifth business day next following the end of each calendar month, submit for publication on the SEHK's website a monthly return in relation to movements in the listed issuer's equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates, in such form and containing such information as the Hong Kong Stock Exchange may from time to time prescribe (irrespective of whether there has been any change in the information provided in its previous monthly return). Such information includes, among other things, the number as at the close of such period of equity securities, debt securities and any other securitized instruments, as applicable, issued and which may be issued pursuant to options, warrants, convertible securities or any other agreements or arrangements.

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**General Meetings**

**Rule 13.73, Hong Kong Listing Rules: Notices**

In addition to any direction of the court, the issuer shall ensure that notice of every meeting of our shareholders or its creditors concerning the issuer (e.g. for winding up petitions, schemes of arrangement or capital reduction) is published in accordance with Rule 2.07C of the Hong Kong Listing Rules. The issuer shall despatch a circular to our shareholders at the same time as (or before) the issuer gives notice of the general meeting to approve the transaction referred to in the circular. The issuer shall provide our shareholders with any material information on the subject matter to be considered at a general meeting that comes to the directors' attention after the circular is issued. The issuer must provide the information either in a supplementary circular or by way of an announcement in accordance with Rules 2.07C of the Hong Kong Listing Rules not less than ten (10) business days before the date of the relevant general meeting to consider the subject matter. The meeting must be adjourned before considering the relevant resolution to ensure compliance with this ten (10) business day requirement by the chairman or, if that is not permitted by the issuer's constitutional documents, by resolution to that effect.

**Rules 13.39(4) and (5), Hong Kong Listing Rules: Meetings of Shareholders**

Any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

**General Meetings**

- (15) The date, time and place of any general meeting. All notices convening meetings must be sent to shareholders at least 14 calendar days before the meeting (excluding the date of notice and the date of meeting). For meetings to pass special resolution(s), the notice must be sent to shareholders at least 21 calendar days before the meeting (excluding the date of notice and the date of meeting).
- (16) Immediately after each general meeting and before the commencement of the pre-opening session on the market day following the general meeting, whether the resolutions put to a general meeting of an issuer were passed. The announcement shall include:
- (a) Breakdown of all valid votes cast at the general meeting, in the following format:

Resolution no. and details	Total no. of shares represented by votes for and against the relevant resolution	For		Against	
		No. of shares	As a percentage of total number of votes for and against the resolution	No. of shares	As a percentage of total number of votes for and against the resolution
			(%)		(%)
[●]	[●]	[●]	[●]	[●]	[●]

- (b) Details of parties who are required to abstain from voting on any resolution(s), including the number of shares held and the individual resolution(s) on which they are required to abstain from voting; and
- (c) Name of firm and/or person appointed as scrutineer.

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The issuer must announce the meeting's poll results as soon as possible, but in any event at least thirty (30) minutes before the earlier of either the commencement of the morning trading session or any pre-opening session on the business day after the meeting.

**Paragraph E.1.3 in Appendix 14, Hong Kong Listing Rules: Communication with Shareholders — Effective Communication**

The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least twenty (20) clear business days before the meeting and to be sent at least ten (10) clear business days for all other general meetings.

**Rule 13.23(1), Hong Kong Listing Rules: Notifiable Transactions, Connected Transactions, Takeovers and Share Repurchases**

An issuer must announce details of acquisitions and realizations of assets and other transactions required by Chapters 14 and 14A of the Hong Kong Listing Rules and, where applicable, must circularize holders of its securities with their details and obtain their approval thereto.

**Rule 730A, Listing Manual: Facilitating Interaction with Shareholders**

- (1) An issuer shall hold all its general meetings in Singapore, unless prohibited by relevant laws and regulations in the jurisdiction of its incorporation.
- (2) All resolutions at general meetings shall be voted by poll.
- (3) At least one scrutineer shall be appointed for each general meeting. The appointed scrutineer(s) shall be independent of the persons undertaking the polling process. Where the appointed scrutineer is interested in the resolution(s) to be passed at the general meeting, it shall refrain from acting as the scrutineer for such resolution(s).
- (4) The appointed scrutineer shall exercise the following duties:
  - (a) ensuring that satisfactory procedures of the voting process are in place before the general meeting; and
  - (b) directing and supervising the count of the votes cast through proxy and in person.

**Rule 704, Listing Manual: Acquisitions and Realizations**

- (17) Any acquisition of:–
  - (a) shares resulting in the issuer holding 10.0% or more of the total voting rights of a quoted company;

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**Rules 14.06 and 14.07, Hong Kong Listing Rules: Classification and Explanation of Terms**

Under Chapter 14 of the Hong Kong Listing Rules, the transaction classification is made by using the percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules. The classifications are:

- (1) share transaction: an acquisition of assets (excluding cash) by a listed issuer where the consideration includes securities for which listing will be sought and where all percentage ratios are less than 5.0%;
- (2) disclosable transaction: a transaction or a series of transactions (aggregated under Rules 14.22 and 14.23 of the Hong Kong Listing Rules) by a listed issuer where any percentage ratio is 5.0% or more, but less than 25.0%;

(b) except for an issuer which is a bank, finance company, securities dealing company or approved financial institution, quoted securities resulting in the issuer's aggregate cost of investment exceeding each multiple of 5.0% of the issuer's latest audited consolidated net tangible assets; the announcement must state:

- (i) the aggregate cost of the issuer's quoted investments before and after the acquisition, and such amounts as a percentage of the latest audited consolidated net tangible assets of the issuer;
- (ii) the total market value of its quoted investments before and after the acquisition; and
- (iii) the amount of any provision for diminution in value of investments;

(c) shares resulting in a company becoming a subsidiary or an associated company of the issuer; and

(d) shares resulting in the issuer increasing its shareholding in a subsidiary or an associated company.

(18) Any sale of:

(a) shares resulting in the issuer holding less than 10% of the total voting rights of a quoted company;

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- (3) major transaction: a transaction or a series of transactions (aggregated under Rules 14.22 and 14.23 of the Hong Kong Listing Rules) by a listed issuer where any percentage ratio is 25.0% or more, but less than 100.0% for an acquisition or 75.0% for a disposal;
- (4) very substantial disposal: a disposal or a series of disposals (aggregated under Rules 14.22 and 14.23 of the Hong Kong Listing Rules) of assets (including deemed disposals referred to in Rule 14.29 of the Hong Kong Listing Rules) by a listed issuer where any percentage ratio is 75.0% or more;
- (5) very substantial acquisition: an acquisition or a series of acquisitions (aggregated under Rules 14.22 and 14.23 of the Hong Kong Listing Rules) of assets by a listed issuer where any percentage ratio is 100.0% or more; and
- (6) reverse takeover: an acquisition or a series of acquisitions of assets by a listed issuer which, in the opinion of the Hong Kong Stock Exchange, constitutes, or is part of a transaction or arrangement or series of transactions or arrangements which constitute, an attempt to achieve a listing of the assets to be acquired and a means to circumvent the requirements for new applicants set out in Chapter 8 of the Hong Kong Listing Rules.
- (b) except for an issuer which is a bank, a finance company, a securities dealing company or an approved financial institution, quoted securities resulting in the issuer's aggregate cost of investment in quoted securities falling below each multiple of 5% of the issuer's latest audited consolidated net tangible assets;
- (c) shares resulting in a company ceasing to be a subsidiary or an associated company of the issuer; and
- (d) shares resulting in the issuer reducing its shareholding in a subsidiary or an associated company.
- (19) Any acquisition or disposal of shares or other assets which is required to be announced under Chapter 10 of the Listing Manual.

### Chapter 10 of the Listing Manual (Acquisitions and Realizations)

#### Part IV Classification of Transactions Rule 1004, Listing Manual

Under Chapter 10, transactions are classified as:-

- (a) non-disclosable transactions;
- (b) disclosable transactions;
- (c) major transactions; and

The relevant category that a transaction falls under depends on the following percentage ratios computed on the following bases:-

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| <p>(1) assets ratio: the total assets which are the subject of the transaction divided by the total assets of the listed issuer;</p> <p>(2) profits ratio: the profits attributable to the assets which are the subject of the transaction divided by the profits of the listed issuer;</p> <p>(3) revenue ratio: the revenue attributable to the assets which are the subject of the transaction divided by the revenue of the listed issuer;</p> <p>(4) consideration ratio: the consideration divided by the total market capitalization of the listed issuer. The total market capitalization is the average closing price of the listed issuer's securities as stated in the SEHK's daily quotations sheets for the five (5) business days immediately preceding the date of the transaction; and</p> <p>(5) equity capital ratio: the number of shares to be issued by the listed issuer as consideration divided by the total number of the listed issuer's issued shares immediately before the transaction.</p> | <p>(d) very substantial acquisitions or reverse takeovers.</p> <p><b>Rule 1005, Listing Manual</b></p> <p>In determining whether a transaction falls within category (a), (b), (c) or (d) of Rule 1004, SGX-ST may aggregate separate transactions completed within the last 12 months and treat them as if they were one transaction.</p> <p><b>Rule 1006, Listing Manual</b></p> <p>The relevant category that a transaction falls under depends on the size of the relative figures computed on the following bases:-</p> <p>(a) The net asset value of the assets to be disposed of, compared with the group's net asset value. This basis is not applicable to an acquisition of assets;</p> <p>(b) The net profits attributable to the assets acquired or disposed of, compared with the group's net profits;</p> <p>(c) The aggregate value of the consideration given or received, compared with the issuer's market capitalization based on the total number of issued shares excluding treasury shares;</p> <p>(d) The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue; and</p> <p>(e) The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets. If the reserves are not directly comparable, the SGX-ST may permit valuations to be used instead of volume or amount.</p> |
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**Rule 14.34, Hong Kong Listing Rules:  
Notification and Announcement**

As soon as possible after the terms of a share transaction, disclosable transaction, major transaction, very substantial disposal, very substantial acquisition or reverse takeover have been finalized, the listed issuer must in each case inform the Hong Kong Stock Exchange and publish an announcement as soon as possible.

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### Rules 14.38A to 14.57, Hong Kong Listing Rules: Additional Requirements for Major Transaction, Very Substantial Disposal, Very Substantial Acquisition and Reverse Takeover

For a major transaction, very substantial disposal and very substantial acquisition, the shareholders' approval is required, while the approvals from both the shareholders and the Hong Kong Stock Exchange are required for reverse takeover.

Transactions are categorized as follows in the Listing Manual:-

- **Rule 1008(1):** non-disclosable transaction: where all of the relative figures computed on the bases set out in Rule 1006 amount to 5.0% or less;
- **Rule 1010:** disclosable transaction: where any of the relative figures computed on the bases set out in Rule 1006 exceeds 5.0% but does not exceed 20.0%;
- **Rule 1014(1):** major transaction: where any of the relative figures computed on the bases set out in Rule 1006 exceeds 20.0%; and
- **Rule 1015(1):** very substantial acquisition or reverse takeover: where an acquisition of assets (whether or not the acquisition is deemed in the issuer's ordinary course of business) is one where any of the relative figures as computed on the bases set out in Rule 1006 is 100.0% or more, or is one which will result in a change in control of the issuer, the transaction is classified as a very substantial acquisition or reverse takeover respectively.

Where a transaction is classified as a disclosable transaction, major transaction or very substantial acquisition/reverse takeover, our Company must make an immediate announcement.

For very substantial acquisitions/reverse takeovers, the issuer must also immediately announce the latest three (3) years of *pro forma* financial information of the assets to be acquired.

Further, transactions that are major transactions are conditional upon the prior approval of shareholders. Very substantial acquisitions/reverse takeovers transactions

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are conditional upon the approval of shareholders and the approval of the SGX-ST.

A circular to shareholders will need to be distributed to seek shareholders' approval. The disclosures required to be made in such circular for these types of transactions are prescribed in the Listing Manual.

**Rule 13.25, Hong Kong Listing Rules:  
Winding-up and Liquidation**

An issuer shall inform the Hong Kong Stock Exchange of the happening of any of the following events as soon as it comes to its attention:

- (a) the appointment of a receiver or manager either by any court having jurisdiction or under the terms of a debenture or any application to any court having jurisdiction for the appointment of a receiver or manager, or equivalent action in the country of incorporation or other establishment, in respect of the business or any part of the business of the issuer or the property of the issuer, its holding company or any subsidiary falling under Rule 13.25(2) of the Hong Kong Listing Rules;
- (b) the presentation of any winding-up petition, or equivalent application in the country of incorporation or other establishment, or the making of any winding-up order or the appointment of a provisional liquidator, or equivalent action in the country of incorporation or other establishment, against or in respect of the issuer, its holding company or any subsidiary falling under Rule 13.25(2) of the Hong Kong Listing Rules;

**Rule 704, Listing Manual: Announcement of  
Specific Information Winding Up, Judicial  
Management, etc.**

- (20) Any application filed with a court to wind up the issuer or any of its subsidiaries, or to place the issuer or any of its subsidiaries under judicial management.
- (21) The appointment of a receiver, judicial manager or liquidator of the issuer or any of its subsidiaries.
- (22) Any breach of any loan covenants or any notice received from principal bankers or from the trustee of any debenture holders to demand repayment of loans granted to the issuer or any of its subsidiaries which, in the opinion of the issuer's directors, would result in the issuer facing a cash flow problem.
- (23) Where Rule 704(20), (21) or (22) applies, a monthly update must be announced regarding the issuer's financial situation. If any material development occurs between the monthly updates, it must be announced immediately.



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- (c) the passing of any resolution by the issuer, its holding company or any subsidiary falling under Rule 13.25(2) of the Hong Kong Listing Rules that it be wound up by way of members' or creditors' voluntary winding-up, or equivalent action in the country of incorporation or other establishment;
- (d) the entry into possession of or the sale by any mortgagee of a portion of the issuer's assets where the aggregate value of the total assets or the aggregate amount of profits or revenue attributable to such assets represents more than 5.0% under any of the percentage ratios defined under Rule 14.04(9) of the Hong Kong Listing Rules; or
- (e) the making of any final judgment, declaration or order by any court or tribunal of competent jurisdiction whether on appeal or at first instance which is not subject to any or further appeal, which may adversely affect the issuer's enjoyment of any portion of its assets where the aggregate value of the total assets or the aggregate amount of profits or revenue attributable to such assets represents more than 5.0% under any of the percentage ratios defined under Rule 14.04(9) of the Hong Kong Listing Rules.

Rules 13.25(1)(a), (b) and (c) of the Hong Kong Listing Rules will apply to a subsidiary of the issuer if the value of that subsidiary's total assets, profits or revenue represents 5.0% or more under any of the percentage ratios defined under Rule 14.04(9) of the Hong Kong Listing Rules.

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**Rule 13.09(1), Hong Kong Listing Rules:      Announcement of Results, Dividends, etc.  
General Obligation of Disclosure**

Without prejudice to Rule 13.10 of the Hong Kong Listing Rules, where in the view of the Hong Kong Stock Exchange there is or there is likely to be a false market in an issuer's securities, the issuer must, as soon as reasonably practicable after consultation with the Hong Kong Stock Exchange, announce the information necessary to avoid a false market in its securities.

**Rules 13.45, Hong Kong Listing Rules:  
After Board Meetings**

An issuer shall inform and announce immediately after approval by or on behalf of the board of:

- (1) any decision to declare, recommend or pay any dividend or to make any other distribution on its listed securities, including the rate and amount of the dividend or distribution and the expected payment date;
- (2) any decision not to declare, recommend or pay any dividend which would otherwise have been expected to have been declared, recommended or paid in due course.
- (3) any preliminary announcement of profits or losses for any year, half year or other period;
- (4) any proposed change in the capital structure, including any redemption of its listed securities; and
- (5) any decision to change the general character or nature of the business of the issue or group.

(24) Any recommendation or declaration of a dividend (including a bonus or special dividend, if any), the rate and amount per share and date of payment. If dividends are not taxable in the hands of shareholders, this must be stated in the announcement and in the dividend advice to shareholders. If there is a material variation in the interim or final dividend rate compared to that for the previous corresponding period, the directors must state the reasons for the variation at the time the dividend is recommended or declared. If the directors decide not to declare or recommend a dividend, this must be announced.

(25) After the end of each of the first three (3) quarters of its financial year, half year or financial year, as the case may be, an issuer must not announce any:-

- (a) dividend;
- (b) capitalization or rights issue;
- (c) closing of the books;
- (d) capital return;
- (e) passing of a dividend; or
- (f) sales or turnover

unless it is accompanied by the results of the quarter, half year or financial year, as the case may be, or the results have been announced.

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**Rule 13.66, Hong Kong Listing Rules: Books Closure  
Closure of Books and Record Date**

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| <p>(1) An issuer must announce any closure of its transfer books or register of members in respect of securities listed in Hong Kong at least six (6) business days before the closure for a rights issue, or ten (10) business days before the closure in other cases. In cases where there is an alteration of book closing dates, the issuer must, at least five (5) business days before the announced closure or the new closure, whichever is earlier, notify the Hong Kong Stock Exchange in writing and make a further announcement.</p> <p>(2) An issuer must ensure that the last day for trading in the securities with entitlements falls at least one (1) business day after the general meeting, if the entitlements require the approval of shareholders in the general meeting or are contingent on a transaction that is subject to the approval of shareholders in the general meeting.</p> | <p>(26) Any intention to fix a books closure date, stating the date, reason and address of the share registry at which the relevant documents will be accepted for registration. At least five (5) market days of notice (excluding the date of announcement and the books closure date) must be given for any books closure date. Issuers could consider a longer notice period, where necessary. Subject to the provisions of the Companies Act, the SGX-ST may agree to a shorter books closure period. In fixing a books closure date, an issuer must ensure that the last day of trading on a cum basis falls at least one (1) day after the general meeting, if a general meeting is required to be held.</p> <p>(27) The issuer must not close its books for any purpose until at least eight (8) market days after the last day of the previous books closure period. This rule does not prohibit identical books closure dates for different purposes.</p> |
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There are no corresponding or similar provisions in the HK Listing Rules dealing with treasury shares and subsidiary holdings.

**Treasury Shares and Subsidiary Holdings**

- (28) Any sale, transfer, cancellation and/or use of treasury shares, stating the following:–
- (a) date of the sale, transfer, cancellation and/or use;
  - (b) purpose of such sale, transfer, cancellation and/or use;
  - (c) number of treasury shares sold, transferred, canceled and/or used;

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- (d) number of treasury shares before and after such sale, transfer, cancellation and/or use;
- (e) percentage of the number of treasury shares against the total number of shares outstanding in a class that is listed before and after such sale, transfer, cancellation and/or use; and
- (f) value of the treasury shares if they are used for a sale or transfer, or canceled.

(28A) Any sale, transfer, cancellation and/or use of subsidiary holdings, stating the following:–

- (a) date of the sale, transfer, cancellation and/or use;
- (b) purpose of such sale, transfer, cancellation and/or use;
- (c) number of subsidiary holdings sold, transferred, canceled and/or used;
- (d) number of subsidiary holdings before and after such sale, transfer, cancellation and/or use; and
- (e) percentage of the number of subsidiary holdings against the total number of shares outstanding in a class that is listed before and after such sale, transfer, cancellation and/or use.

**Chapter 17 of the Hong Kong Listing Rules (Share Option Schemes)**

**Rule 17.02, Hong Kong Listing Rules: Adoption of a new scheme**

The adoption of share option scheme for specified participants of the listed issuer or any of its subsidiaries is subject to the approval of the shareholders of the issuer in general meeting.

**Share Option Schemes or Share Schemes**

**Rule 843(3), Listing Manual**

The approval of an issuer's shareholders must be obtained for any share option scheme or share scheme implemented by:–

- (a) the issuer; and
- (b) a principal subsidiary of the issuer if the scheme may cause Rule 805(2) to apply.

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**Notes to Rule 17.03(3), Hong Kong Listing Rules: Terms of the scheme**

The total number of securities which may be issued upon the exercise of all options to be granted under the scheme and any other schemes must not in aggregate exceed 10.0% of the relevant class of securities of the issuer (or the subsidiary) in issue as at the date of approval of the scheme. Options lapsed in accordance with the terms of the scheme will not be counted for the purpose of calculating the 10.0% limit.

The listed issuer may seek shareholders' approval in general meeting to "refresh" the 10.0% limit under the scheme. However, the total number of securities which may be issued upon exercise of all options to be granted under all of the schemes of the listed issuer (or the subsidiary) under the limit as "refreshed" must not exceed 10.0% of the relevant class of securities in issue as at the date of approval of the limit. Options previously granted under the schemes (including those outstanding, cancelled, lapsed in accordance with the scheme or exercised options) will not be counted for the purpose of calculating the limit as "refreshed". The listed issuer must send a circular to its shareholders containing the information required under Rule 17.02(2)(d) of the Hong Kong Listing Rules and the disclaimer required under Rule 17.02(4) of the Hong Kong Listing Rules.

**Rule 843(4), Listing Manual**

If shareholders' approval is not required pursuant to Rule 843(3), an issuer must announce the principal terms of any such share option scheme or share scheme implemented by its subsidiaries.

**Rule 844, Listing Manual**

Participation in a scheme must be restricted to directors and employees of the issuer and its subsidiaries, except that:–

- (1) directors and employees of an associated company of the issuer may participate in the scheme if the issuer has control over the associated company.
- (2) directors and employees of the issuer's parent company and its subsidiaries who have contributed to the success and development of the issuer may participate in the scheme.

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**Rule 17.03, Hong Kong Listing  
Rules: Terms of Share Option  
Schemes**

The terms and provisions of the scheme must provide, *inter alia*:

- (i) the total number of securities which may be issued upon exercise of all options to be granted under the scheme and any other schemes must not in aggregate exceed 10.0% of the relevant class of securities of the listed issuer (or the subsidiary) in issue as at the date of approval of the scheme — the limit on the number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and any other schemes must not exceed 30.0% of the relevant class of securities of the listed issuer (or the subsidiary) in issue from time to time. No options may be granted under any schemes of the listed issuer (or the subsidiary) if this will result in the limit being exceeded. The period within which the securities must be taken up under the option, which must not be more than ten (10) years from the date of grant of the option, and the life of the scheme, which must not be more than 10 years;
- (ii) the maximum entitlement of each participant under the scheme (including both exercised and outstanding

**Rule 845, Listing Manual**

A limit on the size of each scheme, the maximum entitlement for each class or category of participant (where applicable), and the maximum entitlement for any one participant (where applicable) must be stated. For SGX-ST main board issuers, the following limits must not be exceeded:—

- (1) the aggregate number of shares available under all schemes must not exceed 15.0% of the total number of issued shares excluding treasury shares and subsidiary holdings from time to time;
- (2) the aggregate number of shares available to controlling shareholders and their associates must not exceed 25.0% of the shares available under a scheme;
- (3) the number of shares available to each controlling shareholder or his associate must not exceed 10.0% of the shares available under a scheme;
- (4) the aggregate number of shares available to directors and employees of the issuer's parent company and its subsidiaries must not exceed 20.0% of

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options) in any twelve (12) month period must not exceed 1.0% of the relevant class of securities of the issuer (or the subsidiary) in issue; and

- (iii) basis of determination of the exercise price — the exercise price of the scheme, which must be at least the higher of:
- (i) the closing price of the securities as stated in SEHK's daily quotations sheet on the date of grant, which must be a business day; and
  - (ii) the average closing price of the securities as stated in SEHK's daily quotations sheets for the five (5) business days immediately preceding the date of grant. For the purpose of calculating the exercise price where an issuer has been listed for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing.

**Rule 17.04(1), Hong Kong Listing Rules: Granting Options to a Director, Chief Executive or Substantial Shareholder of a Listed Issuer, or any of their Respective Associates**

In addition to the shareholders' approval set out in note (1) to Rule 17.03(3) of the Hong Kong Listing Rules and the note to Rule 17.03(4) of the Hong Kong Listing Rules, each grant of options to a director, chief executive or substantial shareholder of a listed issuer, or any of their respective associates, under

the shares available under a scheme; and

- (5) the maximum discount under the scheme must not exceed 20.0%. The discount must have been approved by shareholders in a separate resolution.

**Rule 847, Listing Manual**

The exercise price of options to be granted must be set out. Options granted at a discount may be exercisable after two (2) years from the date of grant. Other options may be exercisable after one (1) year from the date of grant.

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a scheme of the listed issuer or any of its subsidiaries must comply with the requirements of this Rule 17.04(1) of the Hong Kong Listing Rules. Each grant of options to any of these persons must be approved by independent non-executive directors of the listed issuer (excluding independent non-executive director who is the grantee of the options).

Where any grant of options to a substantial shareholder or an independent non-executive director of the listed issuer, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the twelve (12) month period up to and including the date of such grant, (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and (b) (where the securities are listed on the Hong Kong Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HKD five million (5,000,000), such further grant of options must be approved by shareholders of the listed issuer. The listed issuer must send a circular to the shareholders. The grantee, his associates and all core connected persons of the listed issuer must abstain from voting in favor at such general meeting.



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**Rule 17.06A, Hong Kong Listing Rules: Announcement on Grant of Options**

As soon as possible upon the granting by the issuer of an option under its share option scheme, the issuer must publish an announcement setting out the following details:-

- (1) date of grant;
- (2) exercise price of the options grant;
- (3) number of options granted;
- (4) market price of its securities on the date of grant;
- (5) where any of the grantees is a director, chief executive or substantial shareholder of the issuer, or an associate of any of them, the names of such grantees and the number of options granted to each of them; and
- (6) validity period of the options.

**Material change in use of proceeds**

Pursuant to section 307(B)(1) of the SFO, a listed corporation must, as soon as reasonably practicable after any inside information has come to its knowledge, disclose the information to the public. Any material change of use of proceeds is generally price sensitive and hence, inside information for the purpose of the SFO. If such information was not previously disclosed in the listing document, the listed issuer must make an announcement to notify investors of the change after listing.

**Rule 704(29): Announcement on employee share option scheme**

(29) Any grant of options or shares. The announcement must be made on the date of the offer and provide details of the grant, including the following:-

- (a) date of grant;
- (b) exercise price of options granted;
- (c) number of options or shares granted;
- (d) market price of its securities on the date of grant;
- (e) number of options or shares granted to each director and controlling shareholder (and each of their associates), if any; and
- (f) validity period of the options.

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2.    **Rules 13.46 to 13.50, Hong Kong Listing Rules: Disclosure of Financial Information**      **Announcement of financial results and annual reports**
- Distribution of annual report and accounts**      **Rule 705, Listing Manual: Financial Statements**
- An issuer is required to send (i) every member of the issuer; and (ii) every other holder of its listed securities (not being bearer securities), a copy of either (a) its annual report including its annual accounts and, where the issuer prepares consolidated financial statements, its consolidated financial statements, together with a copy of the auditors' report thereon or (b) its summary financial report not less than twenty-one (21) days before the date of the issuer's annual general meeting and in any event not more than four (4) months after the end of the financial year to which they relate.
- Interim reports**
- In respect of the first six (6) months of each financial year of an issuer unless that financial year is of six (6) months or less, the issuer shall send (i) every member of the issuer; and (ii) every other holder of its listed securities (not being bearer securities), either (a) an interim report, or (b) a summary interim report not later than three (3) months after the end of that period of six (6) months. The issuer may send a copy of its summary interim report to a member and a holder of the listed securities in place of a copy of its interim report, provided that such summary interim report complies with the relevant provisions of the
- (1) An issuer must announce the financial statements for the full financial year immediately after the figures are available, but in any event not later than 60 days after the relevant financial period.
- (2) An issuer must announce the financial statements for each of the first three (3) quarters of its financial year immediately after the figures are available, but in any event not later than 45 days after the quarter end if:-
- (a) its market capitalization exceeded S\$75 million as at March 31, 2003; or
- (b) it was listed after March 31, 2003 and its market capitalization exceeded S\$75 million at the time of listing (based on the IPO issue price); or

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Companies (Summary Financial Reports) Regulation governing summary financial reports.

**Preliminary announcements of results — Full financial year**

An issuer shall publish its preliminary results in respect of each financial year as soon as possible, but in any event not later than the time that is thirty (30) minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of the board. The issuer must publish such results not later than three (3) months after the end of the financial year.

**Preliminary announcements of results — First half of the financial year**

The issuer shall publish a preliminary announcement in respect of its results for the first six (6) months of each financial year, unless that financial year is of six (6) months or less, as soon as possible, but in any event not later than the time that is thirty (30) minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of the board. The issuer must publish such results not later than two (2) months after the end of that period of six (6) months.

(c) its market capitalization is S\$75 million or higher on the last trading day of each calendar year commencing from December 31, 2006. An issuer whose obligation falls within this sub-section (c) will have a grace period of a year to prepare for quarterly reporting. As an illustration, an issuer whose market capitalization is S\$75 million or higher as at the end of the calendar year December 31, 2006 must announce its quarterly financial statements for any quarter of its financial year commencing in 2008. Notwithstanding the grace period, all issuers whose obligation falls under this sub-section (c) are strongly encouraged to adopt quarterly reporting as soon as possible.

(3) (a) An issuer who falls within the sub-sections in Rule 705(2) above must comply with Rule 705(2) even if its market capitalization subsequently decreases below S\$75 million.

(b) An issuer who does not fall within the sub-sections in Rule 705(2) above must announce its first half financial statements immediately after the figures are available, but in any event not later than 45 days after the relevant financial period.

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**Rule 4.03, Hong Kong Listing Rules: Reporting Accountants**

All accountants' reports must normally be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance for appointment as auditors of a company and who are independent both of the issuer and of any other company concerned to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the requirements on independence issued by the Hong Kong Institute of Certified Public Accountants.

- (4) Notwithstanding the foregoing, with respect to the first announcement to be made by the issuer pursuant to Rules 705(1) or (2) following its listing on the SGX-ST, where the time period between the date of its listing and the final date for the issuer to make the relevant announcement pursuant to Rule 705(1) or (2) above is less than 30 days, the issuer shall have 30 days from the relevant deadline to make the relevant announcement of the financial statements provided that the following conditions are satisfied:–
- (a) the extension is announced by the issuer at the time of the issuer's listing; and
  - (b) in the announcement referred to in paragraph (a), the issuer must confirm that there is no material adverse change to the financial position of the issuer since the date of its prospectus or introductory document in connection with its listing on SGX-ST.
- (5) In the case of an announcement of interim financial statements (quarterly or half-yearly, as applicable, but excluding full year financial statements), an issuer's directors must provide a confirmation that, to the best of their knowledge, nothing has come to the attention of the board of directors which may render the interim financial statements to be false or misleading in any material aspect. In order to make this confirmation, directors would not be expected to commission an audit of these financial statements. The confirmation may be signed by two (2) directors on behalf of the board of directors.

**Rule 712, Listing Manual: Appointment of Auditors**

- (1) An issuer must appoint a suitable auditing firm to meet its audit obligations, having regard to the adequacy of the resources and experience of the auditing firm and the audit engagement partner assigned to the audit, the firm's other audit engagements, the size and complexity of the listed group being audited, and the number and experience of supervisory and professional staff assigned to the particular audit.
- (2) The auditing firm appointed by the issuer must be:–
  - (a) registered with the Accounting and Corporate Regulatory Authority;
  - (b) registered with and/or regulated by an independent audit oversight body acceptable to the SGX-ST; or
  - (c) any other auditing firm acceptable by the SGX-ST.
- (3) A change in auditors must be specifically approved by shareholders in a general meeting.

**Rule 713, Listing Manual**

- (1) An issuer must disclose in its annual report the date of appointment and the name of the audit partner in charge of auditing the issuer and its group of companies. The audit partner must not be in charge of more than five (5) consecutive audits for a full financial year, the first audit being for the financial year beginning on or after January 1, 1997, regardless of the date of listing. The audit partner may return after two (2) years.

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- (2) If the listing of an issuer occurs after five (5) consecutive audits by the same audit partner in charge, the same audit partner may complete the audit of the financial year in which the issuer lists.

**Rule 707, Listing Manual**

- (1) The time between the end of an issuer's financial year and the date of its annual general meeting (if any) must not exceed four (4) months.
- (2) An issuer must issue its annual report to shareholders and the SGX-ST at least 14 days before the date of its annual general meeting.

3. **Public Float Requirement**

**Chapter 8 of the Hong Kong Listing Rules (Qualifications for Listing)**

**Rule 8.08(1), Hong Kong Listing Rules: Qualifications for listing**

Save and except for the circumstances specified under Chapter 8 of the Hong Kong Listing Rules, an issuer must maintain at least 25.0% of its total number of issued shares at all times be held by the public.

**Rule 723, Listing Manual**

An issuer must ensure that at least 10.0% of the total number of issued shares excluding treasury shares (excluding preference shares and convertible equity securities) in a class that is listed is at all times held by the public.

**Rule 724, Listing Manual**

- (1) If the percentage of securities in public hands falls below 10.0%, the issuer must, as soon as practicable, make an announcement and the SGX-ST may suspend trading of the class, or all of the securities of the issuer.
- (2) The SGX-ST may allow the issuer a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of securities in public hands to at least 10.0%, failing which the issuer may be delisted.

4. **Shareholders' Reporting Obligations**

**Part XV of the SFO: Disclosure of Interests by Substantial Shareholders**

The Hong Kong Listing Rules require that the interests held by

**Obligation to notify our Company and SGX-ST of substantial shareholding and change in substantial shareholding**

**Substantial shareholder**

Under sections 135, 136 and 137 of the Securities and Futures Act (Cap 289) (the "Singapore SFA"), a substantial shareholder

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directors and chief executives and substantial shareholders (i.e. shareholders interested in 10.0% or more of the voting power) be disclosed in annual reports, interim reports and circulars of the listed company.

The SFO and the Outline of Part XV of the SFO — Disclosure of Interests (the “**Outline**”) issued by the Securities and Futures Commission (the “**SFC**”) provides that a substantial shareholder (i.e. shareholder interested in 5.0% or more of any class of voting shares in the listed company) is required to disclose his interest, and short positions, in the shares of the listed company, within ten (10) business days after first becoming a substantial shareholder, or to disclose his changes in percentage figures of his shareholdings in the listed company or ceasing to be a substantial shareholder within three (3) business days after becoming aware of the relevant events. Please see to Section 2.7 of the Outline for examples of relevant events.

5. **Part XV of the SFO: Disclosure of Interests by Directors and Chief Executives**

A director or a chief executive of a listed company is required to disclose his interest and short position in any shares in a listed company (or any of its associated companies) and his interest in any debentures of the listed company (or any of its associated companies) within ten (10) business days after becoming a director or chief executive of the listed company or within three (3) business days after

(i.e. shareholder having not less than 5.0% of the total votes attached to all the voting shares in the company) of a company shall within two (2) business days after becoming a substantial shareholder, or when there is a change in the percentage level of the substantial shareholder’s interest, or when he ceases to be a substantial shareholder, give notice in writing to the company.

The reference to changes in “percentage level” means any changes in a substantial shareholder’s interest in the company which results in his interest, following such change, increasing or decreasing to the next discrete 1.0% threshold. For example, an increase in interests in the company from 5.1% to 5.9% need not be notified, but an increase from 5.9% to 6.1% will have to be notified.

**Securities and Futures (Amendment) Act 2009**

The Securities and Futures (Amendment) Act 2009 (the “**Amendment Act**”) has, inter alia, migrated all the disclosure obligations in the Companies Act into the Singapore SFA and has also introduced new disclosure requirements, for example, the requirement for foreign incorporated companies which have a primary listing on the SGX-ST to comply with the disclosure obligations in the Singapore SFA. The new amendments to the Singapore SFA expand the current scope of disclosure obligations.

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becoming aware of the relevant events.

If a person is both a substantial shareholder and a director of the listed company concerned under the SFO, such person may have separate duties to file notices (one in each capacity) as a result of a single event. For example, a person who is interested in 5.9% of the shares of a listed company and buys a further 0.2% will have to file a notice because he is a director (and therefore has to disclose all transactions) and will also have to file a notice as a substantial shareholder because his interest has crossed the 6.0% level.

Under the Amendment Act, the disclosure obligations currently under the Singapore SFA and the Singapore Companies Act have been consolidated and inserted into the Singapore SFA.

### **Duty of director or chief executive officer to notify corporation of his interests**

#### **Sections 133 and 134 of the Singapore SFA**

Section 133 of the Singapore SFA stipulates that every director and chief executive officer of a corporation shall give notice in writing to the corporation of particulars of, inter alia, shares in the corporation; or a related corporation of the corporation, which he holds, or in which he has an interest and the nature and extent of that interest, within two (2) business days after:–

- (a) the date on which the director or chief executive officer becomes such a director or chief executive officer; or
- (b) the date on which the director or chief executive officer becomes a holder of, or acquires an interest in, the shares,

whichever last occurs.

Under Section 134 of the Singapore SFA, any director or chief executive officer of a corporation who intentionally or recklessly contravenes Section 133 of the Singapore SFA in relation to the disclosure of shares held in



the corporation, or furnishes any information which he knows is false or misleading in a material particular or is reckless as to whether it is, shall be guilty of an offense and shall be liable on conviction to a fine not exceeding S\$250,000 or to imprisonment for a term not exceeding two (2) years or to both and, in the case of a continuing offense, to a further fine not exceeding S\$25,000 for every day or part thereof during which the offense continues after conviction.

**Power of corporation to require disclosure of beneficial interest in its voting shares**

Any corporation may, under Section 137F of the Singapore SFA, require any member of the corporation within such reasonable time as is specified in the notice (which shall comply with the requirements stipulated by the Monetary Authority of Singapore):-

- (a) to inform it whether he holds any voting shares in the corporation as beneficial owner or as trustee; and
- (b) if he holds them as trustee, to indicate so far as he can the persons for whom he holds them (either by name or by other particulars sufficient to enable those persons to be identified) and the nature of their interest.

Whenever a corporation receives information from a person pursuant to a requirement imposed on him under this section with respect to shares held by a member of the corporation, it shall be under an obligation to inscribe against the name of that member in a separate part of the register kept by it under Section 137C of the Singapore SFA:-

- (i) the fact that the requirement was imposed and the date on which it was imposed; and
- (ii) the information received pursuant to the requirement.

Any person who intentionally or recklessly contravenes the requirement to comply with

the notice, or in purported compliance with the requirement, furnishes any information which he knows is false or misleading in a material particular or is reckless as to whether it is, shall be guilty of an offense and shall be liable on conviction to a fine not exceeding S\$250,000 or to imprisonment for a term not exceeding two (2) years or to both and, in the case of a continuing offense, to a further fine not exceeding S\$25,000 for every day or part thereof during which the offense continues after conviction.

**Duty of corporation to make disclosure**

**Section 137G of the Singapore SFA**

Where a corporation has been notified in writing by a director or chief executive officer of the corporation or a substantial shareholder in respect of a change in the particulars of his shareholdings, the corporation shall announce or otherwise disseminate the information stated in the notice to the organized market operated by the approved exchange on whose official list any or all of the shares of the corporation are listed, as soon as practicable and in any case, no later than the end of the business day following the day on which the corporation received the notice.

Any corporation that intentionally or recklessly contravenes this duty of disclosure; or in purported compliance, announces or disseminates any information knowing that it is false or misleading in a material particular or reckless as to whether it is, shall be guilty of an offense and shall be liable on conviction to a fine not exceeding S\$250,000 and, in the case of a continuing offense, to a further fine not exceeding S\$25,000 for every day or part thereof during which the offense continues after conviction.

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**Restrictions and notification requirements on issuers purchasing their own shares on a stock exchange**

**Rule 10.05, Hong Kong Listing Rules**

Subject to the provisions of the Code on Share Buy-backs, approved by the SFC and as amended from time to time, an issuer may purchase its shares on the Hong Kong Stock Exchange or on another stock exchange recognized for this purpose by the SFC and the Hong Kong Stock Exchange. All such purchases must be made in accordance with Rule 10.06 of the Hong Kong Listing Rules. The Code on Share Buy-backs must be complied with by an issuer and its directors and any breach thereof by an issuer will be a deemed breach of the Hong Kong Listing Rules and the Hong Kong Stock Exchange may in its absolute discretion take such action to penalize any breach of this paragraph or the listing agreement as it shall think appropriate. It is for the issuer to satisfy itself that a proposed purchase of shares does not contravene the Code on Share Buy-backs.

**Rule 10.06, Hong Kong Listing Rules**

An issuer with primary listing on the Hong Kong Stock Exchange may only purchase its shares on the Hong Kong Stock Exchange, either directly or indirectly, if the relevant shares are fully-paid up, the issuer has previously sent to the shareholders an explanatory statement complying with the

**Share Buyback**

**(a) Shareholder Approval**

**Rule 881, Listing Manual**

An issuer may purchase its own shares if it has obtained the prior specific approval of shareholders in general meeting.

**Rule 882, Listing Manual**

A share buy-back may only be made by way of on-market purchases transacted through the SGX-ST's trading system or on another stock exchange on which the issuer's equity securities are listed ("market acquisition") or by way of an off-market acquisition in accordance with an equal access scheme as defined in Section 76C of the Singapore Companies Act. Unless a lower limit is prescribed under the issuer's law of incorporation, such share buy-back shall not exceed 10.0% of the total number of issued shares excluding treasury shares and subsidiary holdings in each class as at the date of the resolution passed by shareholders for the share buy-back.

**Rule 883, Listing Manual**

For the purpose of obtaining shareholder approval, the issuer must provide at least the following information to shareholders:-

- (1) the information required under the Singapore Companies Act;
- (2) the reasons for the proposed share buy-back;

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provisions of Rule 10.06(1)(b) of the Hong Kong Listing Rules and that the shareholders of the issuer have given a specific approval or a general mandate to the directors to make such a purchase, provided that the number of shares so purchased under the general mandate shall not exceed 10.0% of the number of issued shares of the issuer as at the date of the passing of the relevant shareholders' resolution granting the mandate of purchase.

**Rule 10.06(1)(b), Hong Kong Listing Rules: Explanatory statement**

For the purpose of obtaining shareholders' approval, the issuer must have previously sent to our shareholders an explanatory statement (at the same time as the notice of the relevant shareholders' meeting) containing all the information reasonably necessary to enable those shareholders to make an informed decision on whether to vote for or against the ordinary resolution to approve the purchase by the issuer of shares including the information set out below:–

- (1) a statement of the total number and description of the shares which the issuer proposes to purchase;
- (2) a statement by the directors of the reasons for the proposed purchase of shares;
- (3) a statement by the directors as to the proposed source of funds for making the proposed purchase of shares,

- (3) the consequences, if any, of share purchases by the issuer that will arise under the Singapore Takeover Code or other applicable takeover rules;
- (4) whether the share buy-back, if made, could affect the listing of the issuer's equity securities on the SGX-ST;
- (5) details of any share buy-back made by the issuer in the previous 12 months, giving the total number of shares purchased, the purchase price per share or the highest and lowest prices paid for the purchases, where relevant, and the total consideration paid for the purchases; and
- (6) whether the shares purchased by the issuer will be canceled or kept as treasury shares.

**(b) Dealing Restrictions:**

**Rule 884, Listing Manual**

In the case of a Market Purchase, the purchase price must not exceed 105.0% of the average closing price ("**Average Closing Price**").

"Average Closing Price" means the average of the closing market prices of a share over the last five (5) market days preceding the day of the market purchase on which transactions in

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which shall be funds legally available for such purposes in accordance with the issuer's constitutive documents and the laws of the jurisdiction in which the issuer is incorporated or otherwise established;

- (4) a statement as to any material adverse impact on the working capital or gearing position of the issuer (as compared with the position disclosed in its most recent published audited accounts) in the event that the proposed purchases were to be carried out in full at any time during the proposed purchase period, or an appropriate negative statement;
- (5) a statement of the name of any directors, and to the best of the knowledge of the directors having made all reasonable enquiries, any close associates of the directors, who have a present intention, in the event that the proposal is approved by shareholders, to sell shares to the issuer, or an appropriate negative statement;
- (6) a statement that the directors have undertaken to the Hong Kong Stock Exchange to exercise the power of the issuer to make purchases pursuant to the proposed resolution in accordance with the Hong Kong Listing Rules and the laws of the

the shares were recorded and deemed to be adjusted for any corporate action that occurs after the relevant 5-day period.

**Rule 885, Listing Manual**

In the case of off-market acquisition in accordance with an equal access scheme, an issuer must issue an offer document to all shareholders containing at least the following information:–

- (1) terms and conditions of offer;
- (2) period and procedures for acceptances; and
- (3) information in Rule 883(2), (3), (4), (5) and (6).

**(c) Reporting Requirements**

**Rule 886(1), Listing Manual**

Where an issuer purchases its shares by way of a market purchase, the issuer shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9:00 a.m. on the market day following the day of purchase of any of its shares.

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- jurisdiction in which the issuer is incorporated or otherwise established;
- (7) a statement as to the consequences of any purchases which will arise under the HK Takeovers Code of which the directors are aware, if any;
- (8) a statement giving details of any purchases by the issuer of share made in the previous six (6) months (whether on the Hong Kong Stock Exchange or otherwise) giving the date of each purchase and the purchase price per share or the highest and lowest prices paid for such purchases, where relevant;
- (9) a statement as to whether or not any core connected persons of the issuer have notified the issuer that they have a present intention to sell shares to the issuer or core connected persons have undertaken not to sell any of the shares held by them to the issuer, in the event that the issuer is authorized to make purchases of shares;
- (10) a statement giving the highest and lowest prices at which the relevant shares have traded on the Hong Kong Stock Exchange during each of the previous twelve (12) months; and
- (11) the disclaimer of the Hong Kong Stock Exchange in the
- In a case of an off market purchase under an equal access scheme, an issuer must notify the SGX-ST by 9:00 a.m. on the second market day after the close of acceptances of the offer.
- Rule 886(2), Listing Manual**
- Notification of a purchase by the issuer of its shares must be in the form of Appendix 8.3.2 of the Listing Manual for an issuer with a dual listing on another stock exchange. Such notification would include, inter alia, the name of the overseas exchange on which the company's shares are also listed, the maximum number of shares authorized for purchase, details of the total number of shares authorized for purchase, the date of purchases, the total number of shares purchased, the purchase price per share, the highest and lowest prices paid for such shares, the total purchase consideration, the cumulative number of shares purchased to date and the number of issued shares after the purchase.

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form set out under the Hong Kong Listing Rules.

**Rule 10.06(2), Hong Kong Listing Rules: Dealing Restrictions**

The buy-back of shares by an issuer is subject to various dealing restrictions, including, among others, that an issuer shall not purchase its shares on the Hong Kong Stock Exchange if the purchase price is higher by 5.0% or more than the average closing market price for the five (5) preceding trading days on which its shares were traded on the Hong Kong Stock Exchange.

**Rule 10.06(4), Hong Kong Listing Rules: Reporting Requirements**

- (a) An issuer shall submit for publication to the Hong Kong Stock Exchange not later than thirty (30) minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following any day on which the issuer makes a purchase of shares (whether on the Hong Kong Stock Exchange or otherwise), the total number of shares purchased by the issuer the previous day, the purchase price per share or the highest and lowest prices paid for such purchases, where relevant, and shall confirm that those purchases which were made on the Hong Kong Stock Exchange were made in accordance with the Hong Kong Listing Rules and if the

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issuer's primary listing is on the Hong Kong Stock Exchange, that there have been no material changes to the particulars contained in the explanatory statement. In respect of purchases made on another stock exchange, the issuer's report must confirm that those purchases were made in accordance with the domestic rules applying to purchases on that other stock exchange. Such reports shall be made on a return in such form and containing such information as the Hong Kong Stock Exchange may from time to time prescribe. In the event that no shares are purchased on any particular day then no return need be made to the Hong Kong Stock Exchange. The issuer should make arrangements with its brokers to ensure that they provide to the issuer in a timely fashion the necessary information to enable the issuer to make the report to the Hong Kong Stock Exchange.

- (b) An issuer shall also include in its annual report and accounts a monthly breakdown of purchases of shares made during the financial year under review showing the number of shares purchased each month (whether on the Hong Kong Stock Exchange or otherwise) and the purchase price per share or the highest and



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lowest price paid for all such purchases, where relevant, and the aggregate price paid by the issuer for such purchases. The directors' report shall contain reference to the purchases made during the year and the directors' reasons for making such purchases.

### **Solicitation for Proxy**

Investors holding securities in listed companies listed on the Hong Kong Stock Exchange through CCASS who want to attend the shareholders' meetings in person or appoint proxies to vote on their behalf must make a request through their broker firms or directly to Hong Kong Securities Clearing Company Limited (as the case may be) to authorize the investors as corporate representatives or proxies of Hong Kong Securities Clearing Company Limited Nominees (or any successor thereto) in respect of such shareholding of the investors in the listed companies.

Depositors who wish to attend and vote at the extraordinary general meeting, and whose names are shown in the records of the Central Depository (Pte) Limited ("CDP") as at a time not earlier than 72 hours prior to the time of the extraordinary general meeting supplied by CDP to the company, may attend the extraordinary general meeting in person. Such depositors who are individuals and who wish to attend the extraordinary general meeting in person need not take any further action and can attend and vote at the extraordinary general meeting.

### **Issuance of New Shares, Convertible Bonds or Bonds with Warrants**

#### **Sections 140 and 141, HKCO: Power of Directors to Allot and Issue Shares Allotment and Issues of Shares**

The directors of a company may exercise a power (i) to allot shares in the company; or (ii) to grant rights to subscribe for, or to convert any security into, shares in the company, only if the company gives approval in advance by resolution of the company.

The power to issue shares in a company is usually vested with the directors of that company subject to any restrictions in the constitution of that company.

However, notwithstanding anything to the contrary in the constitution of a company, prior approval of the company at a general meeting is required to authorize the directors to exercise any power of the company to issue

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**Rules 13.36(1) to (3), Hong Kong Listing Rules: Pre-emptive rights**

Except in the circumstances, mentioned in Rule 13.36(2) of the Hong Kong Listing Rules:

- (a) the directors of the issuer shall obtain the consent of shareholders in general meeting prior to allotting, issuing or granting: (i) shares; (ii) securities convertible into shares; or (iii) options, warrants or similar rights to subscribe for any shares or such convertible securities; and
- (b) the directors of the issuer shall obtain consent of the shareholders in general meeting prior to allotting any voting shares if such allotment would effectively alter the control of the issuer.

No such consent as is referred to in Rule 13.36(1)(a) of the Hong Kong Listing Rules shall be required:

- (a) for the allotment, issue or grant of such securities pursuant to an offer made to the shareholders of the issuer which excludes for that purpose any shareholder that is resident in a place outside Hong Kong provided the directors of the issuer consider such exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock

shares. Such approval need not be specific but may be general.

**Rule 805, Listing Manual**

Except as provided in Rule 806, an issuer must obtain the prior approval of shareholders in general meeting for the following:–

- (1) the issue of shares or convertible securities or the grant of options carrying rights to subscribe for shares of the issuer; or
- (2) if a principal subsidiary of an issuer issues shares or convertible securities or options that will or may result in:–
  - (a) the principal subsidiary ceasing to be a subsidiary of the issuer; or
  - (b) a percentage reduction of 20.0% or more of the issuer's equity interest in the principal subsidiary.

**Rule 806(1), Listing Manual**

A company need not obtain the prior approval of shareholders in a general meeting for the issue of securities if the shareholders had by ordinary resolution in a general meeting, given a general mandate to the directors of the issuer to issue:–

- (i) shares; or
- (ii) convertible securities; or
- (iii) additional convertible securities issued pursuant to Rule 829, notwithstanding that the general mandate may have ceased to be in force at the time the securities are issued, provided that the adjustment does not give the holder a benefit that a shareholder does not receive; or

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exchange in that place and, where appropriate, to holders of other equity securities of the issuer entitled to be offered them, pro rata (apart from fractional entitlements) to their existing holdings; or

- (b) if, but only to the extent that, the existing shareholders of the issuer have by ordinary resolution in general meeting given a general mandate to the directors of the issuer, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to allot or issue such securities or to grant any offers, agreements or options which would or might require securities to be issued, allotted or disposed of, whether during the continuance of such mandate or thereafter, subject to a restriction that the aggregate number of securities allotted or agreed to be allotted must not exceed the aggregate of (i) 20.0% of the number of issued shares of the issuer as at the date of the resolution granting the general mandate (or in the case of a scheme of arrangement involving an introduction in the circumstances set out in Rule 7.14(3) of the Hong Kong Listing Rules, 20.0% of the number of issued shares of an overseas issuer following the implementation of such scheme) and (ii) the number

- (iv) shares arising from the conversion of the securities in (ii) and (iii) notwithstanding that the general mandate may have ceased to be in force at the time the shares are to be issued.

**Rule 806(2), Listing Manual**

A general mandate must limit the aggregate number of shares and convertible securities that may be issued. The limit must be not more than 50.0% of the total number of issued shares excluding treasury shares and subsidiary holdings in each class, of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must be not more than 20.0% of the total number of issued shares excluding treasury shares and subsidiary holdings in each class.

Unless prior shareholder approval is required under the Listing Manual, an issue of treasury shares and subsidiary holdings will not require further shareholder approval, and will not be included in the aforementioned limits.

**Rule 806(6), Listing Manual**

A general mandate may remain in force until the earlier of the following:–

- (a) the conclusion of the first annual general meeting of the issuer following the passing of the resolution. By an ordinary resolution passed at that meeting, the mandate may be renewed, either unconditionally or subject to conditions; or
- (b) it is revoked or varied by ordinary resolution of the shareholders in general meeting.

**Specific Mandate**

**Rule 824, Listing Manual**

Every issue of company warrants or other convertible securities not covered under a general mandate must be specifically approved by shareholders in general meeting.

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of such securities repurchased by the issuer itself since the granting of the general mandate (up to a maximum number equivalent to 10% of the number of issued shares of the issuer as at the date of the resolution granting the repurchase mandate), provided that the existing shareholders of the issuer have by a separate ordinary resolution in general meeting given a general mandate to the directors of the issuer to add such repurchased securities to the 20.0% general mandate.

A general mandate given to directors to issue and allot shares under Rule 13.36(2) of the Hong Kong Listing Rules shall only continue in force until (a) the conclusion of the first annual general meeting of the issuer following the passing of the resolution at which time it shall lapse, unless, by ordinary resolution passed at the meeting, such mandate is renewed, either unconditionally or subject to conditions; or (b) revoked or varied by ordinary resolution of the shareholders at general meeting, whichever occurs first.

**Rule 13.36(5), Hong Kong Listing Rules: Placing of Securities for Cash**

In the case of a placing of securities for cash consideration, the issuer may not issue any securities pursuant to a general mandate given under Rule 13.36(2)(b) of the Hong Kong Listing Rules if the

**Issue of Shares, Company Warrants and Convertible Securities For Cash (Other than Rights Issues)**

**Rule 811, Listing Manual**

- (1) An issue of shares must not be priced at more than 10.0% discount to the weighted average price for trades done on the SGX-ST for the full market day on which the placement or subscription

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relevant price represents a discount of 20.0% or more to the benchmarked price of the securities, such benchmarked price being the higher of:–

- (a) the closing price on the date of the relevant placing agreement or other agreement involving the proposed issue of securities under the general mandate; and
- (b) the average closing prices in the five (5) trading days immediately prior to the earlier of:–
  - (i) the date of the announcement of the placing or the proposed transaction or arrangement involving the proposed issue of securities under the general mandate;
  - (ii) the date of the placing agreement or other agreement involving the proposed issue of securities under the general mandate; and
  - (iii) the date on which the placing or subscription price is fixed,

unless the issuer can satisfy the Hong Kong Stock Exchange that it is in a serious financial position and that the only way it can be saved is by an urgent rescue operation which involves the issue of new securities at a price representing a discount of 20.0% or more to the

agreement is signed. If trading in the issuer's shares is not available for a full market day, the weighted average price must be based on the trades done on the preceding market day up to the time the placement agreement is signed.

**Rule 811(2): Issuance of warrants and other convertible securities**

**Rule 811(2), Listing Manual**

An issue of company warrants or other convertible securities is subject to the following requirements:–

- (a) if the conversion price is fixed, the price must not be more than 10.0% discount to the prevailing market price of the underlying shares prior to the signing of the placement or subscription agreement; and
- (b) if the conversion price is based on a formula, any discount in the price-fixing formula must not be more than 10.0% of the prevailing market price of the underlying shares before conversion.

**Rule 811(3), Listing Manual**

Rules 811(1) and (2) are not applicable if specific shareholder approval is obtained for the issue of shares, company warrants or other convertible securities.

**Rule 811(4), Listing Manual**

Where specific shareholders' approval is sought, the circular must include the following:–

- (a) information required under Rule 810 of the Listing Manual; and
- (b) the basis upon which the discount was determined.

**Rule 824, Listing Manual**

Every issue of company warrants or other convertible securities not covered under a

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benchmarked price of the securities or that there are other exceptional circumstances. The issuer shall provide the Hong Kong Stock Exchange with detailed information on the allottees to be issued with securities under the general mandate.

### **Rule 15.02, Hong Kong Listing Rules: Options, Warrants and Similar Rights**

All warrants must, prior to the issue or grant thereof, be approved by the Hong Kong Stock Exchange and in addition, where they are warrants to subscribe equity securities, by the shareholders in general meeting (unless they are issued by the directors under the authority of a general mandate granted to them by shareholders in accordance with Rule 13.36(2) of the Hong Kong Listing Rules). In the absence of exceptional circumstances which would include, by way of example, a rescue reorganization, the Hong Kong Stock Exchange will only grant approval to the issue or grant of warrants to subscribe securities if the following requirements are complied with:

- (1) the securities to be issued on exercise of the warrants must not, when aggregated with all other equity securities which remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20.0% of the number

general mandate (Rule 806, Listing Manual) must be specifically approved by shareholders in general meeting.

### **Rule 825, Listing Manual**

In procuring the approval of shareholders in a general meeting, the circular to the shareholders must include the recommendations of the board of directors of the issuer on such an issue of company warrants or convertible securities and the basis for such recommendation(s).

### **Rule 826, Listing Manual**

If application is made for the listing of company warrants or other convertible securities, the SGX-ST will normally require a sufficient spread of holdings to provide for an orderly market in the securities. As a guide, the SGX-ST expects at least 100 warrant holders for a class of company warrants.

### **Rule 827, Listing Manual**

Company warrants or other convertible securities may be listed only if the underlying securities are (or will become at the same time) one of the following:-

- (1) a class of equity securities listed on the SGX-ST; or
- (2) a class of equity securities listed or dealt in on a stock market approved by the SGX-ST.

### **Rule 828, Listing Manual**

Each company warrant must:-

- (1) give the registered holder the right to subscribe for or buy one (1) share of the issuer; and
- (2) not be expressed in terms of dollar value.

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of issued shares of the issuer at the time such warrants are issued. Options granted under employee or executive share schemes which comply with Chapter 17 of the Hong Kong Listing Rules are excluded for the purpose of this limit; and

- (2) such warrants must expire not less than one and not more than five (5) years from the date of issue or grant and must not be convertible into further rights to subscribe securities which expire less than one year or more than five (5) years after the date of issue or grant of the original warrants.

**Rule 15.03, Hong Kong Listing Rules**

The circular or notice to be sent to shareholders convening the requisite meeting under Rule 15.02 of the Hong Kong Listing Rules must include, at least, (1) the maximum number of securities which could be issued on exercise of the warrants, (2) the period during which the warrants may be exercised and the date when this right commences, (3) the amount payable on the exercise of the warrants, (4) the arrangements for transfer or transmission of the warrants, (5) the rights of the holders on the liquidation of the issuer, (6) the arrangements for the variation in the subscription or purchase price or number of

**Rule 829, Listing Manual**

The terms of the issue must provide for:-

- (1) adjustment to the exercise or conversion price and, where appropriate, the number of company warrants or other convertible securities, in the event of rights, bonus or other capitalization issues;
- (2) the expiry of the company warrants or other convertible securities to be announced, and notice of expiry to be sent to all holders of the company warrants or other convertible securities at least one (1) month before the expiration date; and
- (3) any material alteration to the terms of company warrants or other convertible securities after issue to the advantage of the holders of such securities to be approved by shareholders, except where the alterations are made pursuant to the terms of the issue.

**Rule 830, Listing Manual**

An issuer must announce any adjustment made pursuant to Rule 829(1).

**Rule 831, Listing Manual**

Except where the alterations are made pursuant to the terms of an issue, an issuer must not:-

- (1) extend the exercise period of an existing company warrant;
- (2) issue a new company warrant to replace an existing company warrant;
- (3) change the exercise price of an existing company warrant; or
- (4) change the exercise ratio of an existing company warrant.

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securities to take account of alterations to the share capital of the issuer, (7) the rights (if any) of the holders to participate in any distributions and/or offers of further securities made by the issuer, and (8) a summary of any other material terms of the warrants.

**Rule 832, Listing Manual**

A circular or notice to be sent to shareholders in connection with a general meeting to approve the issue of company warrants or other convertible securities must include at least the following information:-

- (1) the maximum number of the underlying securities which would be issued or transferred on exercise or conversion of the company warrants or other convertible securities;
- (2) the period during which the company warrants or other convertible securities may be exercised and the dates when this right commences and expires;
- (3) the amount payable on the exercise of the company warrants or other convertible securities;
- (4) the arrangement for transfer or transmission of the company warrants or other convertible securities;
- (5) the rights of the holders on the liquidation of the issuer;
- (6) the arrangements for the variation in the subscription or purchase price and in the number of company warrants or other convertible securities in the event of alterations to the share capital of the issuer;
- (7) the rights (if any) of the holders to participate in any distributions and/or offers of further securities made by the issuer;
- (8) a summary of any other material terms of the company warrants or other convertible securities;
- (9) purpose for and use of proceeds of the issue, including the use of future proceeds arising from the conversion/exercise of the company warrants or other convertible securities; and



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- (10) the financial effects of the issue to the issuer.

**Rules 7.19(6), Hong Kong Listing Rules: Rights Issue**

If the proposed rights issue would increase either the number of issued shares or the market capitalization of the issuer by more than 50.0% (on its own or when aggregated with any other rights issues or open offers announced by the issuer (i) within the twelve (12) month period immediately preceding the announcement of the proposed rights issue or (ii) prior to such twelve (12) month period where dealing in respect of the shares issued pursuant thereto commenced within such twelve (12) month period, together with any bonus securities, warrants or other convertible securities (assuming full conversion) granted or to be granted to shareholders as part of such rights issues or open offers):

- (a) the rights issue must be made conditional on approval by shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favor. The issuer must disclose the information

**Chapter 8 Part V: Rights Issue**

**Rule 814, Listing Manual**

- (1) An issuer which intends to make a right issue must announce (having regard to Rule 704(25)) the issue promptly, stating the following:-
- (a) price, terms and purpose of the issue, including the amount of proceeds proposed to be raised from the issue and the intended use of such proceeds on a percentage allocation basis (which could be expressed as a range if the exact allocation has not been determined);
  - (b) whether the issue will be underwritten;
  - (c) the financial circumstances which call for the issue; and
  - (d) whether it has obtained or will be seeking the approval of the SGX-ST for the listing and quotation of the new shares arising from the rights issue.

In addition, an issuer must observe the disclosure requirements in Appendix 8.2 of the Listing Manual.

- (2) If a rights issue involves an issue of convertible securities, the issuer must also comply with Part VI of Chapter 8 of the Listing Manual.

**Rule 815, Listing Manual**

An issuer must announce any significant disbursement of the proceeds raised from the rights issue.

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- required under Rule 2.17 of the Hong Kong Listing Rules in the circular to shareholders;
- (b) the issuer shall set out in the circular to shareholders the purpose of the proposed rights issue, together with the total funds expected to be raised and a detailed breakdown and description of the proposed use of the proceeds. The issuer shall also include the total funds raised and a detailed breakdown and description of the funds raised on any issue of equity securities in the twelve (12) months immediately preceding the announcement of the proposed rights issue, the use of such proceeds, the intended use of any amount not yet utilized and how the issuer has dealt with such amount; and
- (c) the Hong Kong Stock Exchange reserves the right to require the rights issue to be fully underwritten.
- Rule 816, Listing Manual**
- (1) Subject to Rule 816(2), a rights issue must provide for the rights to subscribe for securities to be renounceable in part or in whole in favor of a third party at the option of the entitled shareholders.
- (2) (a) An issuer can undertake non-renounceable rights issues:–
- (i) subject to specific shareholders' approval; or
- (ii) in reliance on the general mandate to issue rights shares in a non-renounceable rights issue if the rights shares are priced at not more than 10.0% discount to the weighted average price for trades done on the SGX-ST for the full market day on which the rights issue is announced. If trading in the issuer's shares is not available for a full market day, the weighted average price must be based on the trades done on the preceding market day up to the time the rights issue is announced.
- (b) The non-renounceable rights issue must comply with Part V of Chapter 8 of the Listing Manual except Rule 816(1).

**Rule 823, Listing Manual**

An issuer making a rights issue must observe any time-table published by the SGX-ST.

**Rule 833, Listing Manual**

The following additional requirements apply to an offer of company warrants or other convertible securities by way of a rights issue or bought deal:–

- (1) The issuer's announcement of the rights issue or bought deal must include either:–
- (a) the exercise or conversion price of the company warrants or other convertible securities; or

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- (b) a price-fixing formula to determine the exercise or conversion price. The price-fixing formula must not contain any discretionary element and the amount of premium or discount (in relation to the underlying share price) must be specified.
- (2) Where a price-fixing formula is adopted:-
  - (a) if the issue is not underwritten, the issuer must fix and announce the exercise or conversion price before the close of the offer; or
  - (b) if the issue is underwritten, the issuer must fix and announce the exercise or conversion price before the commencement of nil-paid rights trading.

**Section 270 of the SFO: Insider dealing**

In general terms, subject to the specified exempted circumstances, Section 270 of the SFO prohibits persons from dealing in listed securities (or their derivatives) of a corporation, or otherwise counsels or procures another person to deal in such listed shares (or their derivatives) when such person is connected with the corporation and has information which he knows is relevant information in relation to the corporation.

**Section 278 of the SFO: Stock Market Manipulation**

Section 278 of the SFO prohibits persons in Hong Kong or elsewhere from:

- (a) entering into or carrying out, directly or indirectly, two
- (2) or more transactions in securities of a corporation that by themselves or in conjunction with any other

**Sections 218 and 219, Singapore SFA**

Sections 218 and 219 of the Singapore SFA prohibit persons from dealing in securities of a corporation if any such person knows or reasonably ought to know that he is in possession of information that is not generally available, and if it was generally available it might have a material effect on the price or value of securities of that corporation.

Such persons include:-

- (1) officers of a corporation or a related corporation;
- (2) substantial shareholders of a corporation or a related corporation; and
- (3) person who occupy position reasonably expected to give him access to inside information by virtue of:-
  - (a) any professional or business relationship existing between himself (or his employer or a corporation of which he is an officer) and that corporation or a related corporation; or
  - (b) being an officer of a substantial shareholder in that corporation or in a related corporation.

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transaction increase, or are likely to increase, the price of any securities traded on a relevant recognized market or by means of authorized automated trading services, with the intention of inducing another person to purchase or subscribe for, or to refrain from selling, securities of the corporation or of a related corporation of the corporation;

- (b) entering into or carrying out, directly or indirectly, two (2) or more transactions in securities of a corporation that by themselves or in conjunction with any other transaction reduce, or are likely to reduce, the price of any securities traded on a relevant recognized market or by means of authorized automated trading services, with the intention of inducing another person to sell, or to refrain from purchasing, securities of the corporation or of a related corporation of the corporation; or
- (c) entering into or carrying out, directly or indirectly, two (2) or more transactions in securities of a corporation that by themselves or in conjunction with any other transaction maintain or stabilize, or are likely to maintain or stabilize, the price of any securities traded on a relevant recognized market or by means of authorized automated trading services, with the intention of inducing another person to sell, purchase or subscribe

**Securities      Market      Manipulation  
Section 198(1), Singapore SFA**

A person must not effect, take part in, be concerned in or carry out, directly or indirectly, two (2) or more transactions in securities of a corporation, being transactions that have or likely to have the effect of raising, lowering, maintaining, or stabilizing the price of the securities with intent to induce other persons to subscribe for, purchase or sell securities, or securities-based derivatives contracts, as the case may be, of the corporation or of a related corporation.

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for, or to refrain from selling, purchasing or subscribing for, securities of the corporation or of a related corporation of the corporation.

### **Rules 3.10, 3.10A and 8.12, Hong Kong Listing Rules: Board Composition**

Every board of directors of an issuer must include at least three (3) independent non-executive directors; and at least one (1) of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. An issuer must appoint independent non-executive directors representing at least one-third of the board.

A new applicant applying for a primary listing on the Hong Kong Stock Exchange must have sufficient management presence in Hong Kong, which normally means that at least two (2) of its executive directors must be ordinarily resident in Hong Kong.

### **Rules 3.21, 3.22 and paragraph C.3.3 of Appendix 14, Hong Kong Listing Rules: Audit Committee**

Every listed issuer must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of three (3) members, at least one (1) of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The majority of the audit committee members must be independent non-executive directors of the listed issuer. The

### **Board composition**

#### **Audit Committee**

#### **Rule 210(5)(e), Listing Manual**

The issuer must establish one or more committees as may be necessary to perform the functions of an audit committee (“AC”), a nominating committee and remuneration committee, with written terms of reference which clearly set out the authority and duties of committees.

#### **Rule 10.2 of the Code of Corporate Governance (“COCG”)**

The AC should comprise at least three directors, all non-executive, the majority of whom including the chairman should be independent. At least two members, including the AC Chairman should have recent and relevant accounting or related financial management expertise or experience.

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audit committee must be chaired by an independent non-executive director.

The board of directors of the issuer must approve and provide written terms of reference as required under Rule 3.22 and paragraph C.3.3 of Appendix 14 to the Hong Kong Listing Rules for the audit committee.

### **Rules 3.25, 3.26 and paragraph B.1.2 of Appendix 14, Hong Kong Listing Rules: Remuneration Committee**

An issuer must establish a remuneration committee chaired by an independent non-executive director and comprising a majority of independent non-executive directors, with specific terms of reference that clearly establish its authority and duties, including the terms of references set out in paragraph B.1.2 of Appendix 14 to the Hong Kong Listing Rules.

The board of directors must approve and provide written terms of reference for the remuneration committee which clearly establish its authority and duties.

### **Paragraphs A.5.1 and A.5.2 of Appendix 14 of the Hong Kong Listing Rules: Nomination Committee**

Issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties

### **Remuneration Committee**

#### **Rule 6, COCG**

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors and key management personnel. No director should be involved in deciding his own remuneration.

#### **Rule 6.1, COCG**

The Board establishes a Remuneration Committee (“RC”) to review and make recommendations to the Board on (a) a framework of remuneration for the Board and key management personnel; and (b) the specific remuneration packages for each director as well as for the key management personnel.

#### **Rule 6.2, COCG**

The RC should comprise at least three (3) directors, the majority of whom, including the RC Chairman, should be independent.

### **Nominating Committee**

#### **Rule 4, COCG**

There should be a formal and transparent process for the appointment and reappointment of directors to our Board taking into account progressive renewal of the Board.

#### **Rule 4.1, COCG**

The Board establishes a NC to make recommendations to our Board on (a) the review of succession plans for directors, in particular the appointment and/or replacement of the Chairman, the CEO and key management personnel; (b) the process and criteria for evaluation of the performance of the Board, its

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and should perform the duties as set out in paragraph A.5.2 of Appendix 14 to the Hong Kong Listing Rules.

board committees and directors; (c) the review of training and professional development programs for the Board and its directors; and (d) the appointment and re-appointment of directors (including alternate directors, if any).

### **Rule 4.2, COCG**

The NC should comprise at least three (3) directors, the majority of whom, including the NC Chairman, should be independent. The lead independent director, if any, should be a member of the NC.

### **Interested Person Transactions or Connected Transactions**

#### **Chapter 14A of the Hong Kong Listing Rules (Connected Transactions)**

Chapter 14A of the Hong Kong Listing Rules specifies circumstances in which transactions between an issuer and certain specified persons (including connected persons) are, unless otherwise exempted, subject to the shareholders' approval, annual review and disclosure requirements.

#### **Rules 14A.07 and 14A.24, Hong Kong Listing Rules**

"Connected person" is defined to include a director, chief executive or substantial shareholder of the listed issuer or any of its subsidiaries, any person who was a director of the listed issuer or any of its subsidiaries in the last twelve (12) months, a supervisor of a PRC issuer or any of its subsidiaries, an associate of the respective persons as aforesaid, a connected subsidiary, or a person deemed to be connected by the Hong Kong Stock Exchange.

"Transaction" include both capital and revenue nature transactions,

#### **Chapter 9, Listing Manual**

Chapter 9 of the Listing Manual, which applies to our Company, prescribes situations in which transactions between entities at risk (as defined in the Listing Manual) and interested persons (as defined in the Listing Manual) are required to be disclosed or are subject to the prior approval of shareholders.

#### **Rule 904, Listing Manual**

For the purposes of Chapter 9, the following definitions apply:-

- a. "approved exchange" means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9;
- b. "entity at risk" means:-
  - (a) the issuer;
  - (b) a subsidiary of the issuer that is not listed on the SGX-ST or an approved exchange; or
  - (c) an associated company of the issuer that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s), has

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- whether or not conducted in the ordinary and usual course of business of the listed issuer's group. This includes the following types of transactions:-
- (a) the acquisition or disposal of assets by a listed issuer's group including deemed disposals;
  - (b) any transaction involving a listed issuer's group granting, accepting, transferring, exercising or terminating an option to acquire or dispose of assets or to subscribe for securities; or the issuer's group deciding not to exercise an option to acquire or dispose of assets or to subscribe for securities;
  - (c) entering into or terminating finance leases or operating leases or subleases;
  - (d) granting an indemnity or providing or receiving financial assistance. "Financial assistance" includes granting credit, lending money, or providing an indemnity against obligations under a loan, or guaranteeing or providing security for a loan;
  - (e) entering into an agreement or arrangement to set up a joint venture entity in any form, such as a partnership or a company, or any other form of joint arrangement;
  - (f) issuing new securities of the listed issuer or its subsidiaries;
  - (g) providing, receiving or sharing of services; or
- control over the associated company.
- c. "financial assistance" includes:-
    - (a) the lending or borrowing of money, the guaranteeing or providing security for a debt incurred or the indemnifying of a guarantor for guaranteeing or providing security; and
    - (b) the forgiving of a debt, the releasing of or neglect in enforcing an obligation of another, or the assuming of the obligations of another.
  - d. "interested person" means:-
    - (a) a director, chief executive officer, or controlling shareholder of the issuer; or
    - (b) an associate of any such director, chief executive officer, or controlling shareholder.
  - e. "interested person transaction" means a transaction between an entity at risk and an interested person.
  - f. "transaction" includes:-
    - (a) the provision or receipt of financial assistance;
    - (b) the acquisition, disposal or leasing of assets;
    - (c) the provision or receipt of services;
    - (d) the issuance or subscription of securities;
    - (e) the granting of or being granted options; and
    - (f) the establishment of joint ventures or joint investments;
- whether or not in the ordinary course of business, and whether or not entered into directly or indirectly (for example, through one or more interposed entities).



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- (h) acquiring or providing raw materials, intermediate products and/or finished goods.

**Rules 14A.35 to 37, 14A.49, 14A.71, 14A.76, Hong Kong Listing Rules: Reporting, Announcement and Independent Shareholders' Approval Requirements for Connected Transactions**

Rules 14A.35, 14A.36 and 14A.47 of the Hong Kong Listing Rules

Where any connected transaction is proposed, the transaction must be announced as soon as practicable after its terms have been agreed and where shareholders' approval for the connected transaction is required, a circular must be sent to shareholders giving information about the transaction. Prior approval of the shareholders in general meeting will be required before the transaction can proceed, unless it is otherwise exempted under the Hong Kong Listing Rules.

Rules 14A.37, 14A.73, 14A.76 of the Hong Kong Listing Rules

Certain categories of transactions are exempt from the general meeting requirements and the Stock Exchange of Hong Kong accepts a written shareholder's approval (subject to certain conditions as set out in Rule 14A.37 of the Hong Kong Listing Rules), and certain transactions are subject only to annual review and disclosure requirements. Amongst other exemptions under the Hong Kong Listing Rules a connected transaction on normal commercial terms will constitute a de minimis transaction under Rule 14A.76(1) of the Hong Kong Listing Rules, which

**When Announcement Required Rule 905, Listing Manual**

- (1) An issuer must make an immediate announcement of any interested person transaction of a value equal to, or more than, 3.0% of the group's latest audited net tangible assets.
- (2) If the aggregate value of all transactions entered into with the same interested person during the same financial year amounts to 3.0% or more of the group's latest audited net tangible assets, the issuer must make an immediate announcement of the latest transaction and all future transactions entered into with that same interested person during that financial year.
- (3) Rules 905 (1) and (2) do not apply to any transaction below S\$100,000.

**When Shareholder Approval Required Rule 906, Listing Manual**

- (1) an issuer must obtain shareholder approval for any interested person transaction of a value equal to, or more than:–
  - (a) 5.0% of the group's latest audited net tangible assets; or
  - (b) 5.0% of the group's latest audited net tangible assets, when aggregated with other transactions entered into with the same interested person during the same financial year. However, a transaction which has been approved by shareholders, or is the subject of aggregation with another transaction that has been approved by shareholders, need

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will be exempt from shareholders' approval, annual review and all disclosure requirements, where each of the percentage ratios (other than the profits ratio) is less than 0.1% or less than 1.0% (where the connected transaction only involves a connected person at the issuer's subsidiary's level), or each of the percentage ratios (other than the profits ratio) is less than 5.0% and the total consideration is less than HK\$3,000,000.

### **Rules 14A.49, 14A.71, Hong Kong Listing Rules: Reporting Requirements**

The listed issuer's annual report must contain the following information on the connected transactions conducted in that financial year (including continuing connected transactions under agreements signed in previous years):-

- (1) the transaction date;
- (2) the parties to the transaction and a description of their connected relationship;
- (3) a brief description of the transaction and its purpose;
- (4) the total consideration and terms;
- (5) the nature of the connected person's interest in the transaction; and
- (6) for continuing connected transactions,
  - a. a confirmation from the listed issuer's independent non-executive directors on the matters set out in Rule 14A.55 of the

not be included in any subsequent aggregation.

- (2) Rule 906(1) does not apply to any transaction below S\$100,000.

### **Rule 907, Listing Manual**

An issuer must disclose the aggregate value of interested person transactions entered into during the financial year under review in its annual report. The name of the interested person and the corresponding aggregate value of the interested person transactions entered into with the same interested person must be presented in the prescribed format.

### **Rule 920, Listing Manual**

- (1) An issuer may seek a general mandate from shareholders for recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses. A general mandate is subject to annual renewal.
  - (a) An issuer must:-
    - (i) disclose the general mandate in the annual report, giving details of the aggregate value of transactions conducted pursuant to the general mandate during the financial year; and
    - (ii) announce the aggregate value of transactions conducted pursuant to the general mandate for the financial periods which it is required to report on pursuant to Rule 705 within the time required for the announcement of such report.
  - (b) A circular to shareholders seeking a general mandate must include:-
    - (i) the class of interested persons with which the entity at risk will be transacting;

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- Hong Kong Listing Rules; and
- b. a statement from the listed issuer's board of directors whether the auditors have confirmed the matters set out in Rule 14A.56 of the Hong Kong Listing Rules.
- (ii) the nature of the transactions contemplated under the mandate;
  - (iii) the rationale for and benefit to the entity at risk;
  - (iv) the methods or procedures for determining transaction prices;
  - (v) the independent financial adviser's opinion on whether the methods or procedures in (iv) are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the issuer and its minority shareholders;
  - (vi) an opinion from the audit committee if it takes a different view to the independent financial adviser;
  - (vii) a statement from the issuer that it will obtain a fresh mandate from shareholders if the methods or procedures in (iv) become inappropriate; and
  - (viii) a statement that the interested person will abstain, and has undertaken to ensure that its associates will abstain, from voting on the resolution approving the transaction.
- (c) An independent financial adviser's opinion is not required for the renewal of a general mandate provided that the audit committee confirms that:-
- (i) the methods or procedures for determining the transaction prices have not changed since last shareholder approval; and
  - (ii) the methods or procedures in Rule 920(1)(c)(i) of the Listing Manual are sufficient to ensure that the transactions will be

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carried out on normal commercial terms and will not be prejudicial to the interests of the issuer and its minority shareholders.

- (d) Transactions conducted under a general mandate are not separately subject to Rules 905 and 906 of the Listing Manual.

**Rule 14A.81, Hong Kong Listing Rules: Aggregation of Transactions**

The Hong Kong Stock Exchange will aggregate a series of connected transactions and treat them as if they were one (1) transaction if they were all entered into or completed within a twelve (12) month period or are otherwise related. The listed issuer must comply with the applicable connected transaction requirements based on the classification of the connected transactions when aggregated. The aggregation period will cover twenty-four (24) months if the connected transactions are a series of acquisitions of assets being aggregated which may constitute a reverse takeover.

**Rule 14A.82, Hong Kong Listing Rules: Aggregation of Transactions**

Factors that the Hong Kong Stock Exchange will consider for aggregation of a series of connected transactions include whether:

- (1) they are entered into by the listed issuer's group with the same party, or parties who are connected with one another;
- (2) they involve the acquisition or disposal of parts of one asset, or securities or interests

**Rule 908, Listing Manual**

In interpreting the term "same interested person" for the purpose of aggregation in Rules 905 and 906 of the Listing Manual, the following applies:-

- (1) Transactions between an entity at risk and interested persons who are members of the same group are deemed to be transactions between the entity at risk with the same interested person.
- (2) If an interested person, (which is a member of a group) is listed, its transactions with the entity at risk need not be aggregated with transactions between the entity at risk and other interested persons of the same group, provided that the listed interested person and other listed interested persons have boards the majority of whose directors are different and are not accustomed to act on the instructions of the other interested persons and their associates and have audit committees whose members are completely different.

**Rule 918, Listing Manual**

If a transaction requires shareholder approval, it must be obtained either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction.

**Rule 919, Listing Manual**

In a meeting to obtain shareholder approval, the interested person and any associate of the

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- in a company or group of companies; or
- (3) they together lead to substantial involvement by the listed issuer's group in a new business activity.
- interested person must not vote on the resolution, nor accept appointments as proxies unless specific instructions as to voting are given.

**Rule 14A.83, Hong Kong Listing Rules: Aggregation of Transactions**

The Hong Kong Stock Exchange may aggregate all continuing connected transactions with a connected person.

**Rule 14A.84, Hong Kong Listing Rules: Aggregation of Transactions**

The issuer must consult the Hong Kong Stock Exchange before the listed issuer's group enters into any connected transaction if:

- (1) the transaction and any other connected transactions entered into or completed by the listed issuer's group in the last twelve (12) months fall under any of the circumstances described in Rule 14A.82 of the Hong Kong Listing Rules; or
- (2) the transaction and any other transactions entered into by the listed issuer's group involve the acquisition of assets from a person or group of persons or any of their associates within twenty-four (24) months after the person(s) gain control (as defined in the HK Takeovers Code) of the listed issuer.

**Rule 14A.85, Hong Kong Listing Rules: Aggregation of Transactions**

The listed issuer must provide information to the Hong Kong Stock

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Exchange on whether it should aggregate the transactions.

**Rule 14A.86, Hong Kong Listing Rules: Aggregation of Transactions**

The Hong Kong Stock Exchange may aggregate a listed issuer's connected transactions even if the listed issuer has not consulted the Hong Kong Stock Exchange.

**Rules 14A.76, 14A.89, 14A.92 to 14A.95, 14A.97 to 14A.101, Hong Kong Listing Rules: Exemptions**

The connected transactions which can be exempt from the connected transaction requirements include:-

- (1) de minimis transactions;
- (2) financial assistance;
- (3) issue of new securities by the listed issuer or its subsidiary if (a) the connected person receives a pro rata entitlement to the issue as a shareholder; (b) the connected person subscribes for the securities in a rights issue or open offer; (c) the securities are issued to the connected person under a share option scheme; or (d) the securities are issued under a "top-up placing and subscription";
- (4) Dealings in securities on the SEHK as prescribed under Rule 14A.93 of the Hong Kong Listing Rules;
- (5) any repurchase of own securities by a listed issuer or its subsidiary from a connected person on the Hong Kong Stock Exchange or a recognized stock exchange or under a general

**Exceptions**

**Rule 915, Listing Manual**

The following transactions are not required to comply with Rules 905, 906 and 907 of the Listing Manual:-

- (1) a payment of dividends, a subdivision of shares, an issue of securities by way of a bonus issue, a preferential offer, or an off-market acquisition of the issuer's shares, made to all shareholders on a pro-rata basis, including the exercise of rights, options or company warrants granted under the preferential offer;
- (2) the grant of options, and the issue of securities pursuant to the exercise of options, under an employees' share option scheme approved by the SGX-ST;
- (3) a transaction between an entity at risk and an investee company, where the interested person's interest in the investee company, other than that held through the issuer, is less than 5.0%;
- (4) a transaction in marketable securities carried out in the open market where the counterparty's identity is unknown to the issuer at the time of the transaction;
- (5) a transaction between an entity at risk and an interested person for the provision of goods or services if:-
  - (a) the goods or services are sold or rendered based on a fixed or

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|      | offer made under the Code on Share Buy-backs;  | graduated scale, which is publicly quoted; and  |
| (6)  | the entering into of a service contract by a director of the listed issuer with the listed issuer or its subsidiary;   | (b) the sale prices are applied consistently to all customers or class of customers.  |
| (7)  | buying as consumer or selling consumer goods or services to a connected person on normal commercial terms or better in its ordinary and usual course of business if such goods and services are (a) of a type ordinarily supplied for private use or consumption, (b) for the buyer's own consumption or use, (c) consumed or used by the buyer in the same state as when they were bought (d) on terms no more favorable to the connected person or no less favorable to the listed issuer's group than those available from independent third parties; | Such transactions include telecommunication and postal services, public utility services, and sale of fixed price goods at retail outlets.  |
|      |  | (6) the provision of financial assistance or services by a financial institution that is licensed or approved by the Monetary Authority of Singapore, on normal commercial terms and in the ordinary course of business;  |
| (8)  | the sharing of administrative services between a listed issuer and a connected person on a cost basis;   | (7) the receipt of financial assistance or services from a financial institution that is licensed or approved by the Monetary Authority of Singapore, on normal commercial terms and in the ordinary course of business; and  |
| (9)  | transactions with associates of passive investors; and   | (8) director's fees and remuneration, and employment remuneration (excluding "golden parachute" payments).  |
| (10) | transactions with connected persons at the subsidiary level.   | (9) insurance coverage and indemnities for directors and chief executive officers of the entity at risk, to the extent permitted under the Singapore Companies Act, and regardless of whether the entity at risk is subject to the Singapore Companies Act; and   |
|      |  | (10) Defense funding for directors and chief executive officers of the entity at risk to the extent permitted under 163A and 163B of the Singapore Companies Act, regardless of whether the entity at risk is subject to the Singapore Companies Act, provided that in the case of defense funding permitted under section 163B of the Singapore Companies Act, such defense funding is to be repaid upon any action taken by a regulatory authority against him. |

**Rule 916, Listing Manual**

The following transactions are not required to comply with Rule 906 of the Listing Manual:–

- (1) the entering into, or renewal of a lease or tenancy of real property of not more than three (3) years if the terms are supported by independent valuation;
- (2) investment in a joint venture with an interested person if:–
  - (a) the risks and rewards are in proportion to the equity of each joint venture partner;
  - (b) issuer confirms by an announcement that its audit committee is of the view that the risks and rewards of the joint venture are in proportion to the equity of each joint venture partner and the terms of the joint venture are not prejudicial to the interests of the issuer and its minority shareholders; and
  - (c) the interested person does not have an existing equity interest in the joint venture prior to the participation of the entity at risk in the joint venture.
- (3) The provision of a loan to a joint venture with an interested person if:–
  - (a) the loan is extended by all joint venture partners in proportion to their equity and on the same terms;
  - (b) the interested person does not have an existing equity interest in the joint venture prior to the participation of the entity at risk in the joint venture; and
  - (c) the issuer confirms by an announcement that its audit committee is of the view that:
    - (i) the provision of the loan is not prejudicial to the



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- interests of the issuer and its minority shareholders; and
- (ii) the risks and rewards of the joint venture are in proportion to the equity of each joint venture partner and the terms of the joint venture are not prejudicial to the interests of the issuer and its minority shareholders.
- (4) the award of a contract by way of public tender to an interested person if:-
- (a) the awarder entity at risk announces the following information:-
- (i) the prices of all bids submitted;
- (ii) an explanation of the basis for selection of the winning bid; and
- (b) both the listed bidder (or if the bidder is unlisted, its listed parent company) and listed awarder (or if the awarder is unlisted, its listed parent company) have boards, the majority of whose directors are different and are not accustomed to act on the instructions of the interested person or its associates and have audit committees whose members are completely different.
- (5) the receipt of a contract which was awarded by way of public tender, by an interested person if:-
- (a) the bidder entity at risk announces the prices of all bids submitted; and

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- (b) both the listed bidder (or if the bidder is unlisted, its listed parent company) and listed awarder (or if the awarder is unlisted, the listed parent company) have boards, the majority of whose directors are different and are not accustomed to act on the instructions of the interested person or its associates and have audit committees whose members are completely different.

**RESTRICTIONS ON DEALINGS OF DIRECTORS BEFORE PUBLICATION OF  
THE FINANCIAL RESULTS**

**Rules A.3, B.8 and C.14 of  
Appendix 10, Hong Kong Listing  
Rules**

Rule A.3 of Appendix 10, Hong  
Kong Listing Rules

A director must not deal in any securities of the listed issuer on any day on which its financial results are published and:-

- (i) during the period of sixty (60) days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (ii) during the period of thirty (30) days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results,

unless the circumstances are exceptional as described in Rule C14

**Rule 1207(19)(c), Listing Manual**

A listed issuer and its officers should not deal in the listed issuer's securities during the period commencing two weeks before the announcement of the company financial statements for each of the first three (3) quarters of its financial year and one month before the announcement of the company's full year financial statements (if required to announce quarterly financial statements), or one month before the announcement of the company's half year and full year financial statements (if not required to announce quarterly financial statements).

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of Appendix 10 of the Hong Kong Listing Rules below. In any event, the director must comply with the procedure in the Rules B8 and B9 of the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Directors Dealing Code**”).

The listed issuer must notify the Hong Kong Stock Exchange in advance of the commencement of each period during which directors are not allowed to deal under Rule A3 of Appendix 10 of the Hong Kong Listing Rules. Such period will cover any period of delay in the publication of a results announcement.

### Rule C14 of Appendix 10, Hong Kong Listing Rules

If a director proposes to sell or otherwise dispose of securities of the listed issuer under exceptional circumstances where the sale or disposal is otherwise prohibited under the Directors Dealing Code, the director must comply with the provisions of the Rule B8 of the Directors Dealing Code regarding prior written notice and acknowledgement. The director must satisfy the chairman or the designated director that the circumstances are exceptional and the proposed sale or disposal is the only reasonable course of action available to the director before the director can sell or dispose of the securities. The listed issuer shall give written notice of such sale or disposal to the Hong Kong Stock Exchange as soon as practicable stating why it considered the circumstances to be exceptional. The listed issuer shall publish an announcement in accordance with

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Rule 2.07C of the Hong Kong Listing Rules immediately after any such sale or disposal and state that the chairman or the designated director is satisfied that there were exceptional circumstances for such sale or disposal of securities by the director.

Rule B8 of Appendix 10, Hong Kong Listing Rules

Under the Directors Dealing Code, a director must not deal in any securities of the listed issuer without first notifying in writing the chairman or a director (otherwise than himself) designated by the board for the specific purpose and receiving a dated written acknowledgement. In his own case, the chairman must first notify the board at a board meeting, or alternatively notify a director (otherwise than himself) designated by the board for the purpose and receive a dated written acknowledgement before any dealing. The designated director must not deal in any securities of the listed issuer without first notifying the chairman and receiving a dated written acknowledgement.

In each case, (a) a response to a request for clearance to deal must be given to the relevant director within five (5) business days of the request being made; and (b) the clearance to deal in accordance with (a) above must be valid for no longer than five (5) business days of clearance being received.

Rule B9 of Appendix 10, Hong Kong Listing Rules

The procedure established within the listed issuer must, as a

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minimum, provide for there to be a written record maintained by the listed issuer that the appropriate notification was given and acknowledged pursuant to Rule B8 of the Directors Dealing Code, and for the director concerned to have received written confirmation to that effect.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation of our Company**

Our Company was incorporated in Bermuda under the Bermuda Companies Act as an exempted company with limited liability on August 22, 2003. Our Company was formerly known as Bio-Treat Technology Limited and HanKore Environment Tech Group Limited and was listed on the SGX-ST Main Board on February 16, 2004. On December 12, 2014, our immediate holding company, CEWHL, injected their investments in CEWIL into HanKore, a company previously listed on the SGX-ST (stock code: U9E), in return for 1,940,269,305 consideration shares issued by HanKore. Following the reverse takeover, HanKore was renamed China Everbright Water Limited. Please refer to the paragraph headed “The Reverse Takeover” in the section headed “History and Corporate Structure” of this Prospectus for details of the reverse takeover.

The registered address of our Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and our principal place of business is at 26<sup>th</sup> FL, Block A, Oriental Xintiandi Plaza, No. 1003 Shennan Avenue, Futian District, Shenzhen, the People’s Republic of China.

Our Company has established a place of business in Hong Kong at Room 3601, 36/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong and was registered on December 14, 2018 as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance with the Registrar of Companies in Hong Kong. Mr. An Xuesong has been appointed as our authorized representative for the acceptance of service of process and notices on our behalf in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our registered place of business in Hong Kong as set out above.

As our Company was incorporated in Bermuda with our Shares admitted to trading on the SGX-ST Main Board, our corporate structure and operations are subject to the laws of Bermuda, Singapore and our constitutional documents, which comprise of the Memorandum of Association and the Bye-laws. A summary of certain parts of the constitution of our Company and relevant aspects of the Bermuda Companies Act is set out in the section headed “Summary of the Constitution of the Company and Bermuda Company Law” in Appendix III to this Prospectus.

**2. Changes in share capital of our Company**

Our Company was incorporated with an authorized share capital of HK\$100,000 divided into 200,000 shares of par value of HK\$0.50 each.

The following sets out the changes in the share capital of our Company during the two years immediately preceding the date of this Prospectus:

- (a) In June 2017, our Company issued 15,733,870 Shares of par value of HK\$1.00 each pursuant to the scrip dividend scheme.

- (b) In June 2018, our Company issued 24,411,431 Shares of par value of HK\$1.00 each pursuant to the scrip dividend scheme.
- (c) In October 2018, our Company issued 26,008,884 Shares of par value of HK\$1.00 each pursuant to the scrip dividend scheme.
- (d) Assuming the Global Offering becomes unconditional and the Offer Shares mentioned in this Prospectus are issued (assuming that the Over-allotment Option is not exercised), a total of 103,970,000 Shares will have been allotted and issued as fully paid and 7,219,967,814 Shares in the authorized share capital will remain unissued.
- (e) On the basis that the Over-allotment Option is exercised in full, a total of 15,595,000 Shares will have been allotted and issued as fully paid and 7,204,372,814 Shares in the authorized share capital will remain unissued.
- (f) Other than pursuant to (i) the general mandate to issue Shares referred to in the paragraph headed “Resolutions of our Shareholders passed in a general meeting held on April 12, 2019”; and (ii) the scrip dividend scheme of our Company, our Company does not have any present intention to issue any of the authorized but unissued share capital and no issue of Shares will be made which would effectively alter the control of our Company within 12 months from the Listing Date.

Save as disclosed above, there has been no alteration in the share capital of our Company in the two years preceding the date of this Prospectus.

Save as disclosed above, as at the Latest Practicable Date, our Company had no founder shares, management shares, treasury shares or deferred shares.

### 3. Changes in share capital or registered capital of our subsidiaries

Particulars of our Company’s subsidiaries are set out in Note 1 to the Accountants’ Report as set out in Appendix I to this Prospectus. The following alterations in the share capital or registered capital of our Company’s subsidiaries have taken place within the two years immediately preceding the date of this Prospectus:

**(1) Everbright Water (Ji’nan Licheng) Limited (光大水務 (濟南歷城) 有限公司)**

The registered capital of Everbright Water (Ji’nan Licheng) Limited, our 100% owned subsidiary, was increased from RMB148,530,000 to RMB199,848,000 on January 29, 2018.

**(2) Everbright Water (Ji’nan) Limited (光大水務 (濟南) 有限公司)**

The registered capital of Everbright (Ji’nan) Limited, our 100% owned subsidiary, was increased from USD53,750,000 to USD106,246,600 on September 25, 2018.

(3) *Beijing Everbright Water Investment Management Co., Ltd.* (北京光大水務投資管理有限公司)

The registered capital of Beijing Everbright Water Investment Management Co., Ltd., our 100% owned subsidiary, was increased from RMB50,000,000 to RMB1,200,000,000 on August 29, 2018.

(4) *Dalian Zhuanghe EW Water Co., Ltd.* (大連莊河光水水務有限公司)

The registered capital of Dalian Zhuanghe EW Water Co., Ltd., our 100% owned subsidiary, was increased from RMB2,000,000 to RMB10,000,000 on September 14, 2018.

(5) *Everbright Water (Binzhou) Limited* (光大水務(濱州)有限公司)

The registered capital of Everbright Water (Binzhou) Limited, our 100% owned subsidiary, was increased from RMB21,000,000 to RMB48,220,000 on October 12, 2018.

(6) *Everbright Water (Yangzhou) Limited* (光大水務(揚州)有限公司)

The registered capital of Everbright Water (Yangzhou) Limited, our 100% owned subsidiary, was increased from USD9,000,000 to USD14,000,000 on November 23, 2018.

(7) *Everbright Water Operating (Xinyi) Limited* (光大水務運營(新沂)有限公司)

The registered capital of Everbright Water Operating (Xinyi) Limited, our 60.4% owned subsidiary, was increased from USD15,774,500 to USD19,496,300 on October 30, 2018.

(8) *Everbright Water (Zibo) Limited* (光大水務(淄博)有限公司)

The registered capital of Everbright Water (Zibo) Limited, our 100% owned subsidiary, was increased from USD31,158,000 to USD85,666,900 on January 7, 2019.

(9) *Everbright Water (Lingxian) Limited* (光大水務(陵縣)有限公司)

The registered capital of Everbright Water (Lingxian) Limited, our 100% owned subsidiary, was increased from USD8,380,500 to USD10,962,800 on April 28, 2018.

(10) *Dalian Pulandian Area EW Water Co., Ltd.* (大連市普蘭店區光水水務有限公司)

The registered capital of Dalian Pulandian Area EW Water Co., Ltd., our 100% owned subsidiary, was increased from RMB10,000,000 to RMB34,500,000 on June 9, 2018.



**(11) Everbright Water Investment Consulting (Shenzhen) Limited (光大水務投資顧問 (深圳) 有限公司)**

Everbright Water Investment Consulting (Shenzhen) Limited was dissolved and struck off with effect from January 25, 2019. Prior to its dissolution, Everbright Water Investment Consulting (Shenzhen) Limited was our 100% owned subsidiary.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this Prospectus.

**4. Resolutions of the Shareholders passed at the annual general meeting of our Company on April 12, 2019**

At the annual general meeting of our Company held on April 12, 2019, the following resolutions were passed by our Shareholders pursuant to which, amongst other things, our Directors were approved pursuant to the Bermuda Companies Act and Rule 806 of the Listing Manual:

- (1) (a) (i) to issue Shares whether by way of right, bonus or otherwise;
- (ii) to make or grant offers, agreements or options that might or would require Shares to be issued or other transferable rights to subscribe for or purchase Shares (collectively, “**Instruments**”) including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares;
- (iii) to issue additional instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalization issues; and
- (b) (notwithstanding the authority conferred by the Shareholders may have ceased to be in force) to issue Shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

provided always that:

- (i) the aggregate number of Shares to be issued pursuant to such resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to such resolution) does not exceed fifty per cent. (50%) of the total number of issued Shares excluding treasury shares, of which the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to such resolution) to be issued other than on a pro rata basis to existing Shareholders does not exceed twenty per cent. (20%) of the total number of issued Shares excluding treasury shares;

- (ii) (subject to such calculation as may be prescribed by the SGX-ST for the purpose of determining the aggregate number of Shares that may be issued under paragraph (i) above) the issued share capital shall be the Company's total number of issued Shares excluding treasury shares at the time of passing such resolution, after adjusting for;
- new Shares arising from the conversion or exercise of any convertible securities, or
  - new Shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time such resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual; and
  - any subsequent bonus issue, consolidation or subdivision of Shares, and
- (iii) such authority shall, unless revoked or varied by our Company at a general meeting, continue in force until the conclusion of the next annual general meeting of our Company or the date by which the next annual general meeting of our Company is required by law to be held, whichever is the earlier.
- (2) (a) to purchase or otherwise acquire issued Shares not exceeding in aggregate the Maximum Limit (as hereinafter defined), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price (as hereinafter defined), whether by way of:
- (i) market purchase(s) on the SGX-ST; and/or
- (ii) off-market purchase(s) (if effected otherwise than on the SGX-ST) in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they consider fit, which scheme(s) shall, as required under the Listing Manual, satisfy all the conditions prescribed by section 76C of the Singapore Companies Act, Chapter 50 of Singapore,
- in accordance with the Bermuda Companies Act and all other laws and regulations and rules of the SGX-ST as may for the time being be applicable (the "**Share Buy-back Mandate**");
- (b) unless varied or revoked by our Company in general meeting, the authority conferred on the Directors pursuant to the Share Buy-back Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of such resolution and expiring on the earliest of:
- (i) the date on which the next annual general meeting of our Company is held;

- (ii) the date on which the next annual general meeting of our Company is required by law to be held; and
- (iii) the date on which purchases and acquisitions of Shares pursuant to the Share Buy-back Mandate are carried out to the full extent mandated; and

for the purpose of such resolution:

**“Average Closing Price”** means the average of the closing market prices of the Shares over the last five market days on which the Shares were transacted on the SGX-ST, before the date of the market purchase by our Company, or as the case may be, the date of the making of the offer pursuant to the off-market purchase, and deemed to be adjusted in accordance with the listing rules of the SGX-ST for any corporate action which occurs after the relevant five-day period;

**“date of the making of the offer”** means the date on which our Company makes an offer for the purchase or acquisition of Shares from shareholders, stating therein the purchase price (which shall not be more than the Maximum Price) for each Share and the relevant terms of the equal access scheme for effecting the off-market purchase;

**“Maximum Limit”** means that number of Shares representing 10 per cent. of the total number of issued Shares as at the date of the passing of such resolution (excluding any treasury shares and any Shares held by subsidiaries of the Company in the circumstances referred to in Sections 21(4), 21(4B), 21(6A) and 21(6C) of the Singapore Companies Act); and

**“Maximum Price”** in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses), which shall not exceed:

- (a) in the case of a market purchase of a Share, five per cent. above the Average Closing Price; and
- (b) in the case of an off-market purchase of a Share, five per cent. above the Average Closing Price.

#### 5. Resolutions of our Shareholders passed in a general meeting held on November 16, 2018.

At the special general meeting of our Company held on November 16, 2018, resolutions of Shareholders were passed pursuant to which, amongst other things, approval was given for:

- (i) the proposed Global Offering and the Listing; and

- (ii) the proposed adoption of the new Bye-laws.

## B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

### 1. Subsidiaries

Please refer to Note 1 of the Accountant's Report as set out in Appendix I for a list of subsidiaries under our Group.

### 2. Summary of the material contracts


The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this Prospectus and are or may be material:

- (i) a supplemental deed to the deed of non-compete undertaking and right of first refusal dated November 7, 2014 (the "NCU") entered into by CEIL and the Company dated April 15, 2019, pursuant to which certain variations and amendments are made to the NCU;
- (ii) the Hong Kong Underwriting Agreement; and
- (iii) an equity stake purchase agreement dated June 13, 2018 entered into by and among BEWI, Xuzhou Municipal Engineering Design Institute Co., Ltd. (the "Xuzhou Design Institute"), Mr. Wang Yong, Mr. Wen Zhigang, Mr. Wang Liming and Mr. Zhao Linwen, pursuant to which BEWI agreed to acquire the entire equity interest in Xuzhou Design Institute at an aggregate consideration of RMB82 million, payable in cash, subject to BEWI's obligation to make certain contingent payment.

## 3. Intellectual property rights

## (1) Trademarks

As of the Latest Practicable Date, our Group was the registered owner of the following trademarks which are material in relation to our business:

	Trademark	Place of Registration	Registered Owner	Class	Registration No.	Term
1.		China	Jiangsu Tongyong Environment Engineering Co., Ltd.	7	7808779	March 14, 2011 to March 13, 2021
2.		China	Jiangsu Tongyong Environment Engineering Co., Ltd.	40	7805960	March 7, 2011 to March 6, 2021
3.		China	Jiangsu Tongyong Environment Engineering Co., Ltd.	37	7805948	March 7, 2011 to March 6, 2021
4.		China	Jiangsu Tongyong Environment Engineering Co., Ltd.	11	7805926	April 28, 2011 to April 27, 2021
5.		China	Jiangsu Tongyong Environment Engineering Co., Ltd.	11	994232	April 28, 2017 to April 27, 2027

As at the Latest Practicable Date, our Group has been granted a non-exclusive right by China Everbright Group to use the following trade names and trademarks that are registered in the name of China Everbright Group in our operations and are considered material in relation to our business:

Trade name/Trademark	Ownership Group	Territory of Registration/ Application	Registration Number	Class	Term
中國光大 中国光大	China Everbright Group	Hong Kong	200200154AA	4, 5, 9	September 15, 1999 to September 15, 2026
中國光大 中国光大	China Everbright Group	Hong Kong	200200155AA	36, 37, 38, 39, 40, 41, 42	September 15, 1999 to September 15, 2026

<u>Trade name/Trademark</u>	<u>Ownership Group</u>	<u>Territory of Registration/ Application</u>	<u>Registration Number</u>	<u>Class</u>	<u>Term</u>
CHINA EVERBRIGHT	China Everbright Group	Hong Kong	2002B11241AA	4, 5, 36, 37, 38, 39, 40, 41, 42	September 15, 1999 to September 15, 2026
	China Everbright Group	Hong Kong	2001B01313AA	4, 5, 9, 36, 37, 38, 39, 40, 41, 42	September 15, 1999 to September 15, 2026
CHINA EVERBRIGHT	China Everbright Group	Hong Kong	2002B13645	9	September 15, 1999 to September 15, 2026

For details of the licensing agreements, please refer to the section headed “Business — Intellectual Property”.

## (2) Patents

As at the Latest Practicable Date, our Group had registered and maintained the following patents in the PRC which are material to our business:

	<u>Patent</u>	<u>Patentee</u>	<u>Patent Type</u>	<u>Patent No.</u>	<u>Application Date</u>	<u>Registration Date</u>
1.	A section + A2O wastewater treatment system (A段 + A2O 污水處理系統)	Everbright Water (Shenzhen) Limited, Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201520815137.2	2015-10-20	2016-03-23
2.	Ozone oxidation device (臭氧氧化裝置)	Everbright Water (Shenzhen) Limited, Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201520744324.6	2015-09-24	2016-03-23
3.	Pharmaceutical wastewater treatment system (製藥廢水處理系統)	Everbright Water (Shenzhen) Limited, Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201520745758.8	2015-09-24	2016-03-23
4.	Industrial wastewater treatment system (工業廢水處理系統)	Everbright Water (Shenzhen) Limited, Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201520745760.5	2015-09-24	2016-03-23
5.	Glass fiber reinforced plastic sandwich panel for deodorization device and biological deodorization device (用於除臭裝置的玻璃鋼夾芯板和生物除臭裝置)	Everbright Water (Shenzhen) Limited	Utility model	ZL201720272432.7	2017-03-20	2017-11-10
6.	Sewage deodorization Device (下水道除臭裝置)	Everbright Water (Shenzhen) Limited	Utility model	ZL201720273451.1	2017-03-20	2017-11-17

	<u>Patent</u>	<u>Patentee</u>	<u>Patent Type</u>	<u>Patent No.</u>	<u>Application Date</u>	<u>Registration Date</u>
7.	Wastewater and sludge continuous conveyer-type and heat pump drying treatment system (污水污泥連續帶式和熱泵干化成套處理系統)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201621120049.1	2016-10-13	2017-06-16
8.	wastewater treatment system (污水處理系統)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201520748673.5	2015-09-24	2016-03-23
9.	Biological deodorization device (生物除臭裝置)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201720272431.2	2017-03-20	2017-11-03
10.	Sludge heat drying device (污泥熱干化裝置)	Everbright Water (Shenzhen) Limited	Utility model	ZL201720273315.2	2017-03-20	2017-11-03
11.	Pilot plant for catalytic Ozonation (臭氧催化氧化中試裝置)	Everbright Water (Shenzhen) Limited	Utility model	ZL201720982501.3	2017-08-07	2018-03-06
12.	Track structure (履帶結構)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201621121314.8	2016-10-13	2017-06-09
13.	Sludge extrusion and shaping Machine (污泥擠壓成型機)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co., Ltd.	Utility model	ZL201720258739.1	2017-03-16	2017-10-17
14.	Sludge slitting and shaping Machine (污泥切條成型裝置)	Everbright Water Technology Development (Nanjing) Limited	Utility model	ZL201720687034.1	2017-06-13	2018-05-08
15.	Tubular three-dimension electro-fenton device (管式三維電芬頓裝置)	Everbright Water Technology Development (Nanjing) Limited	Utility model	ZL201721046185.5	2017-08-21	2018-03-30
16.	Compressor unit system and sludge heat drying device used in the air energy dry equipment (用於空氣能干化設備的壓縮機組系統和污泥熱干化裝置)	Everbright Water Technology Development (Nanjing) Limited	Utility model	ZL201720687032.2	2017-06-13	2018-01-19
17.	Sludge air energy dry equipment (污泥空氣能乾化裝置)	Everbright Water Technology Development (Nanjing) Limited	Utility model	ZL201720687116.6	2017-06-13	2018-01-19
18.	Biological Filter (生物濾池)	Everbright Water Technology Development (Nanjing) Limited; Everbright Sponge City Development (Zhenjiang) Limited	Utility model	ZL201721014455.4	2017-08-14	2018-03-30
19.	Tubular electrocoagulation device (管式電絮凝裝置)	Everbright Water Technology Development (Nanjing) Limited	Utility model	ZL201721051986.0	2017-08-21	2018-03-30
20.	Sludge treatment facility (污泥處理設備)	Everbright Water Technology Development (Nanjing) Limited	Utility model	ZL201720825501.2	2017-07-07	2018-01-26
21.	Filter material leveling machine for biological aerated filter (曝氣生物濾池濾料平整機)	Everbright Water Technology Development (Nanjing) Limited	Utility model	201721310679.X	2017-10-11	2018-07-03

	<u>Patent</u>	<u>Patentee</u>	<u>Patent Type</u>	<u>Patent No.</u>	<u>Application Date</u>	<u>Registration Date</u>
22.	Ecological tree pool and rainwater treatment system (生態樹池和雨水處理系統)	Everbright Water Technology Development (Nanjing) Limited; Everbright Sponge City Development (Zhenjiang) Limited	Utility model	201721637041.7	2017-11-29	2018-07-03
23.	Rainwater garden and rainwater treatment system (雨水花園和雨水處理系統)	Everbright Water Technology Development (Nanjing) Limited; Everbright Sponge City Development (Zhenjiang) Limited	Utility model	201721636985.2	2017-11-29	2018-07-03
24.	Recovery device for prevention of filter material loss (防濾料流失回收裝置)	Everbright Water Technology Development (Nanjing) Limited	Utility model	201721247488.3	2017-09-26	2018-06-01

As at the Latest Practicable Date, our Group had applied for registration of the following patents, the registration of which had not yet been granted:

	<u>Patent</u>	<u>Applicant</u>	<u>Patent Type</u>	<u>Patent No.</u>	<u>Application Date</u>
1.	Ozone oxidation catalyst with a basis of Activated $\gamma$ - alumina carrier and its production method (基於活性 $\gamma$ -氧化鋁球載體的臭氧氧化催化劑及其製備方法)	Everbright Water (Shenzhen) Limited	Invention patent	201710668026.7	2017-08-07
2.	Biological deodorization device (生物除臭裝置)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201710166827.3	2017-03-20
3.	Sludge extrusion and shaping Machine (污泥擠壓成型機)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201710156173.6	2017-03-16
4.	Ventilation method for heat pump drying device (熱泵乾化設備換氣方法)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201710270658.8	2017-04-24
5.	Sewage deodorization Device (下水道除臭裝置)	Everbright Water (Shenzhen) Limited	Invention patent	201710166856.X	2017-03-20
6.	Ozone oxidation catalyst with a basis of aluminium oxide foam ceramics carrier and its production method (基於氧化鋁泡沫陶瓷載體的臭氧氧化催化劑及其製備方法)	Everbright Water (Shenzhen) Limited	Invention patent	201710666958.8	2017-08-07
7.	Ozone oxidation catalyst with a basis of activated carbon carrier and its production method (基於活性炭載體的臭氧氧化催化劑及其製備方法)	Everbright Water (Shenzhen) Limited	Invention patent	201710667513.1	2017-08-07
8.	Catalytic ozonation method (臭氧催化氧化方法)	Everbright Water (Shenzhen) Limited	Invention patent	201710667516.5	2017-08-07
9.	Sludge treatment facility (污泥處理設備)	Everbright Water Technology Development (Nanjing) Limited	Invention patent	201710551099.8	2017-07-07



	<u>Patent</u>	<u>Applicant</u>	<u>Patent Type</u>	<u>Patent No.</u>	<u>Application Date</u>
10.	Rainwater treatment method (雨水處理方法)	Everbright Water Technology Development (Nanjing) Limited; Everbright Sponge City Development (Zhenjiang) Limited	Invention patent	201711228388.0	2017-11-29
11.	Sludge air energy dry equipment (污泥空氣能乾化裝置)	Everbright Water Technology Development (Nanjing) Limited	Invention patent	201710442723.0	2017-06-13
12.	Nickel-bearing electroplating wastewater treatment method (含鎳電鍍廢水處理方法)	Everbright Water Technology Development (Nanjing) Limited	Invention patent	201710717091.4	2017-08-21
13.	Urban non-point pollution cleansing treatment method (城市面源污染淨化處理方法)	Everbright Water Technology Development (Nanjing) Limited; Everbright Sponge City Development (Zhenjiang) Limited	Invention patent	201710690134.4	2017-08-14
14.	Filter material leveling machine for biological aerated filter (曝氣生物濾池濾料平整機)	Everbright Water Technology Development (Nanjing) Limited	Invention patent	201710939439.4	2017-10-11
15.	Nickel-bearing electroplating wastewater treatment method (含鎳電鍍廢水的處理方法)	Everbright Water Technology Development (Nanjing) Limited	Invention patent	201710717093.3	2017-08-21
16.	Recovery device for prevention of filter material loss (防濾料流失回收裝置)	Everbright Water Technology Development (Nanjing) Limited	Invention patent	201710880141.0	2017-09-26
17.	Rainwater treatment system (雨水處理系統)	Everbright Water Technology Development (Nanjing) Limited; Everbright Sponge City Development (Zhenjiang) Limited	Invention patent	201711229583.5	2017-11-29
18.	Wastewater and sludge continuous conveyer-type and heat pump drying treatment system and treatment method (污水污泥連續帶式和熱泵乾化成套處理系統及處理方法)	Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201610895320.7	2016-10-13
19.	A method for intelligent control of biological aerated filter backwash intensity (一種智能控制曝氣生物濾池反沖洗強度的方法)	Everbright Water Technology Development (Nanjing) Limited; Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201810659230.7	2018-06-25
20.	Wastewater treatment method (污水處理方法)	Everbright Water Technology Development (Nanjing) Limited; Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201810659764.X	2018-06-25

	<u>Patent</u>	<u>Applicant</u>	<u>Patent Type</u>	<u>Patent No.</u>	<u>Application Date</u>
21.	Wastewater treatment method (污水處理方法)	Everbright Water Technology Development (Nanjing) Limited; Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201810659414.3	2018-06-25
22.	An enhanced biological aerated filter backwash method (一種強化曝氣生物濾池反沖洗方法)	Everbright Water Technology Development (Nanjing) Limited; Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201810659765.4	2018-06-25
23.	Air distribution device and biological aerated filter (布氣裝置和曝氣生物濾池)	Everbright Water Technology Development (Nanjing) Limited; Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201810790897.0	2018-07-18
24.	Anaerobic/anoxic tank based on IFAS/MBBR technique (基於IFAS/MBBR工藝的厭氧/缺氧池)	Everbright Water Technology Development (Nanjing) Limited; Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201810791674.6	2018-07-18
25.	Biological stuffing agitation technique based on anaerobic/anoxic tank (基於厭氧/缺氧池的生物填料攪拌工藝)	Everbright Water Technology Development (Nanjing) Limited; Everbright Water (Shenzhen) Limited; Jiangsu Tongyong Environment Engineering Co. Ltd.	Invention patent	201810792480.8	2018-07-18

#### 4. Domain names

As at the Latest Practicable Date, our Group had registered and maintained the following domain names which are material to our business and are currently used by us:

	<u>Domain name</u>	<u>Registered Owner</u>	<u>Registration Date</u>	<u>Expiry Date</u>
1.	ebwater.com	Mr. Chung Chi Wai, Head of Research and Development Department of CEIL	November 19, 2014	November 19, 2024

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

#### **D. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

##### **1. Particulars of Directors' service contracts and letters of appointment**

Each of our executive Directors and non-executive Directors has entered into service agreements with the Company, and each of our independent non-executive Directors has entered into an appointment letter with our Company. According to the Bye-laws of our Company, each Director (including the Chairman of the Board and the Chief Executive Officer) shall retire at least once every three years and shall be eligible for re-election and any Director appointed by the Board shall retire at the next annual general meeting of our Company and shall be eligible for re-election.

Details of the Company's remuneration policy are described in section headed "Directors and Senior Management — Directors' and Senior Management's Remuneration".

##### **2. Remuneration of Directors**

- (a) An aggregate of HK\$8,313,000, HK\$9,267,000 and HK\$8,630,000 was paid to our Directors as remuneration for the three years ended December 31, 2016, 2017 and 2018 respectively (including fees, salaries, contribution to pension schemes, housing allowances, other allowances, benefits-in-kind and discretionary bonuses).
- (b) The director's remuneration fee for each of our Independent Non-executive Directors is SGD100,000, SGD80,000, SGD80,000 and SGD80,000 per annum respectively.
- (c) Under the arrangement currently in force, the aggregate amount of remuneration payable by our Group to our Directors for the year ended December 31, 2019 will be approximately HK\$9,233,000.
- (d) There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this Prospectus.

### 3. Disclosure of interests

#### (a) Directors

#### **Interests and short positions of our Directors and chief executive in the share capital of our Company and its associated corporations as at the Latest Practicable Date following the completion of the Global Offering**

So far as our Directors are aware and based on information available on the Latest Practicable Date, immediately following completion of the Global Offering without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the interests or short positions of our Directors and our chief executive in our Shares, underlying Shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Hong Kong Listing Rules, will be as follows:

#### Interest and short positions in our Company

Name of Director	Nature of interest	Number of Shares	Approximate percentage of interest in our Company immediately after the Global Offering
Mr. Lim Yu Neng Paul	Deemed interest	1,608,909(L)	0.0579%
Ms. Cheng Fong Yee	Beneficial interest	622,266(L)	0.0224%

#### Notes

- (1) “(L)” denotes the person’s long position in our Shares.

#### (b) Substantial Shareholders

#### **Interests and short positions of substantial shareholders in our Shares and underlying Shares**

For information on the persons who will, immediately following the completion of the Global Offering (assuming Over-allotment Option is not exercised), have or be deemed or taken to have an interest and/or short position in the Shares or the underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, please see the “Substantial Shareholders” section of this Prospectus.

Save as set out above, as at the Latest Practicable Date, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (without taking into

account any Shares which may be issued upon the exercise of the Over-allotment Option), be interested, directly or indirectly, in 10% or more of the issued share capital carrying rights to vote of any member of our Group.

#### 4. Related party transactions

Our Group had entered into related party transactions within the two years immediately preceding the date of this Prospectus as mentioned in the Note 36 headed “Related Party Transactions and Balances” to the audited financial statements set out in the Accountants’ Report as set out in Appendix I to this Prospectus and the section headed “Connected Transactions” in this Prospectus. Our Directors confirm that all related party transactions are conducted on normal commercial terms and that their terms are fair and reasonable.

#### 5. Disclaimers

Save as disclosed in this Prospectus:

- (a) taking no account of Shares which may be issued upon the exercise of the Over-Allotment Option, none of our Directors knows of any person (other than a Director or chief executive of the Company) who will, immediately following completion of the Global Offering, have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (b) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Hong Kong Stock Exchange once the Shares are listed thereon;
- (c) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (d) none of our Directors or any of the parties listed in the paragraph headed “8. Qualification of experts” under “E. Other Information” in this Appendix has any direct or indirect

interest in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (e) none of our Directors or any of the parties listed in the paragraph headed “8. Qualification of Experts” under “E. Other Information” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of our Group taken as a whole;
- (f) as at the Latest Practicable Date, none of our Directors, their respective associates (as defined in the Hong Kong Listing Rules) or our existing Shareholders who, to the knowledge of our Directors, are interested in 5% or more of the issued share capital of our Company, has any interests in the five largest customers or the five largest suppliers of our Group during the Track Record Period; and
- (g) save in connection with the Underwriting Agreements, none of the experts referred to in the paragraph headed “8. Qualifications of experts” under “E. Other Information” in this Appendix has any shareholding in our Company or any of its subsidiaries or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of its subsidiaries.

## **E. OTHER INFORMATION**

### **1. Litigation**

As of the Latest Practical Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group that would have a material adverse effect on our Group’s results of operations or financial condition.

### **2. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries.

### **3. Preliminary expenses and Joint Sponsors’ fees**

We have not incurred any material preliminary expenses.

The Joint Sponsors will be paid by our Company an aggregate fee of US\$700,000 to act as sponsors to the Company in connection with the Listing.

**4. Promoter**

We do not have any promoters. Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this Prospectus.

**5. Joint Sponsors**

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option).

China Everbright Capital Limited is our connected person under the Hong Kong Listing Rules and therefore is not independent from our Company under Rule 3A.07 of the Hong Kong Listing Rules.

**6. No material adverse change**

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2018 (being the date on which the latest audited combined financial statements of the Group were made up) until the date of this Prospectus, which would materially affect the information shown in this Prospectus.

**7. Binding effect**

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**8. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this Prospectus:

<u>Name</u>	<u>Qualification</u>
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO
China Everbright Capital Limited	A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Zhong Lun Law Firm	Legal advisor to our Company as to PRC laws
Allen & Gledhill LLP	Legal advisor to our Company as to Singapore laws
Appleby	Legal advisor to our Company as to Bermuda laws
Frost and Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant

**9. Consents of experts**

Each of the experts listed in the paragraph headed “8. Qualifications of experts” in this Appendix has given and has not withdrawn their respective consents to the issue of this Prospectus with the inclusion of its report and/or letter and/or summary of valuation certificates and/or legal opinion (as the case may be) and references to its name included herein in the form and context in which it respectively appears.

As at the Latest Practicable Date, none of the experts named in the section headed “Qualifications of experts” above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.



**10. Registers of members**

The Bermuda Principal Share Register will be maintained in Bermuda and the Hong Kong Share Register will be maintained in Hong Kong. Unless our Directors otherwise agree, all transfers and other documents of title of Shares that are traded on the Hong Kong Stock Exchange must be lodged for registration with and registered by, the Hong Kong Branch Registrar in Hong Kong and may not be lodged in Bermuda.

**11. Miscellaneous**

- (a) Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus:
  - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
  - (iv) there is no arrangement under which future dividends are waived or agreed to be waived; and
  - (v) our Group has no outstanding convertible debt securities or debentures.
- (b) Our Company has no founder shares, management shares or deferred shares in the capital of the Company.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (d) Save for our Company, no member of our Group is presently listed on any stock exchange or traded on any trading system.
- (e) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this Prospectus.

**G. GENERAL****1. Taxation of holder of our Shares****(a) Bermuda**

Under present Bermuda law, transfers and other dispositions of shares are exempt from Bermuda stamp duty.

**(b) Hong Kong**

The sale, purchase and transfer of Shares registered with the Hong Kong Branch Share Register will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealing in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

**(c) Singapore**

The statements made herein regarding taxation are general in nature and based on certain aspects of current tax laws of Singapore and administrative guidelines issued by the relevant authorities in force as of the date of this Prospectus and are subject to any changes in such laws or administrative guidelines, or in the interpretation of these laws or guidelines, occurring after such date, which changes could be made on a retrospective basis. These laws and guidelines are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. The statements below are not to be regarded as advice on the tax position of any holder of our Shares or of any person acquiring, selling or otherwise dealing with our Shares or on any tax implications arising from the acquisition, sale or other dealings in respect of our Shares. The statements made herein do not purport to be a comprehensive or exhaustive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of our Shares and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. Prospective Shareholders are advised to consult their own tax advisers as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of our Shares. The statements below are based on the assumption that our Company is not tax resident in Singapore for Singapore income tax purposes. It is emphasized that neither our Company nor any other persons involved in this Prospectus accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of our Shares.

*Individual Income Tax*

An individual is a tax resident in Singapore in a year of assessment if, in the preceding year, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he resides in Singapore.

Individual taxpayers who are Singapore tax residents are subject to Singapore income tax on income accruing in or derived from Singapore. All foreign-sourced income received in Singapore on or after 1 January 2004 by a Singapore tax resident individual (except for income received through a partnership in Singapore) is exempt from Singapore income tax if the Comptroller of Income Tax in Singapore (“**Comptroller**”) is satisfied that the tax exemption would be beneficial to the individual. A Singapore tax resident individual is taxed at progressive rates ranging from 0% to 22%.

Non-resident individuals, subject to certain exceptions and conditions, are subject to Singapore income tax on income accruing in or derived from Singapore at the rate of 22%.

*Corporate Income Tax*

A corporate taxpayer is regarded as resident in Singapore for Singapore tax purposes if the control and management of its business is exercised in Singapore.

Corporate taxpayers who are Singapore tax residents are subject to Singapore income tax on income accruing in or derived from Singapore and, subject to certain exceptions, on foreign-sourced income received or deemed to be received in Singapore. Foreign-sourced income in the form of dividends, branch profits and service income received or deemed to be received in Singapore by Singapore tax resident companies on or after 1 June 2003 are exempt from tax if certain prescribed conditions are met, including the following:

- (a) such income is subject to tax of a similar character to income tax under the law of the jurisdiction from which such income is received; and
- (b) at the time the income is received in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) levied under the law of the territory from which the income is received on any gains or profits from any trade or business carried on by any company in that territory at that time is not less than 15%.

In the case of dividends paid by a company resident in a territory from which the dividends are received, the “subject to tax condition” in (b) above is considered met where tax is paid in that territory by such company in respect of its income out of which such dividends are paid or tax is paid on such dividends in that territory from which such dividends are received.

Certain concessions and clarifications have also been announced by the Inland Revenue Authority of Singapore (“IRAS”) with respect to such conditions.

A non-resident corporate taxpayer is subject to income tax on income that is accrued in or derived from Singapore, and on foreign-sourced income received or deemed received in Singapore, subject to certain exceptions.

The corporate tax rate in Singapore is currently 17%. In addition, three-quarters of up to the first S\$10,000, and one-half of up to the next S\$290,000, of a company’s chargeable income otherwise subject to normal taxation is exempt from corporate tax for each year of assessment (“YA”) prior to YA 2020. From YA 2020 onwards, three-quarters of up to the first S\$10,000 of a company’s normal chargeable income, and one-half of up to the next S\$190,000, is exempt from corporate tax. The remaining chargeable income (after the tax exemption) will be fully taxable at the prevailing corporate tax rate.

New companies will also, subject to certain conditions and exceptions, be eligible for full tax exemption on their normal chargeable income of up to S\$100,000 and one-half of up to the next S\$200,000 of chargeable income a year for each of the company’s first three years of assessment prior to YA 2020. From YA 2020 onwards, three-quarters of up to the first S\$100,000 of a company’s normal chargeable income, and one-half of up to the next S\$100,000, is exempt from corporate tax. The remaining chargeable income (after the tax exemption) will be taxed at the applicable corporate tax rate.

### *Dividend distributions*

As our Company is incorporated in Bermuda and is not tax resident in Singapore for Singapore tax purposes, dividends paid by our Company would generally be considered as sourced outside Singapore (unless the Shares are held as part of a trade or business carried out in Singapore in which event the holders of such Shares may be taxed on the dividends as they are derived).

Foreign-sourced dividends on the Shares received or deemed received in Singapore by an individual not resident in Singapore would be exempt from Singapore income tax. This exemption will also apply in the case of a Singapore tax resident individual who receives such foreign-sourced dividends in Singapore (except where such income is received through a partnership in Singapore).

Foreign-sourced dividends on the Shares received or deemed received by corporate investors in Singapore would be liable to Singapore tax. If the conditions for the exemption of specified foreign income (as stated above) are met, the dividends on the Shares received by corporate investors resident in Singapore would be exempt from Singapore tax.

*Gains on disposal of Shares*

Singapore does not impose tax on capital gains. There are no specific laws or regulations which deal with the characterisation of whether a gain is income or capital in nature. Gains arising from the disposal of our Shares may be construed to be of an income nature and subject to Singapore income tax, especially if they arise from activities which the IRAS regards as the carrying on of a trade or business in Singapore.

Shareholders who apply, or who are required to apply, the Singapore Financial Reporting Standard (“FRS”) 39, FRS 109 or Singapore Financial Reporting Standard (International) 9 (“SFRS(I) 9”) (as the case may be) may for the purposes of Singapore income tax be required to recognize gains or losses (not being gains or losses in the nature of capital) in accordance with the provisions of FRS 39, FRS 109 or SFRS(I) 9 (as the case may be) (as modified by the applicable provisions of Singapore income tax law) even though no sale or disposal of our Shares is made.

Shareholders who may be subject to this tax treatment should consult their accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of our Shares.

*Stamp duty*

There is no stamp duty payable on the subscription for our Shares.

As our Company is incorporated in Bermuda, no stamp duty is payable in Singapore on any transfer of the Shares, unless the Shares are registered in any register kept in Singapore.

In the event that a register of the Shares is kept in Singapore and where an instrument of transfer is executed in respect of the Shares registered in such register, stamp duty may be payable on such instrument of transfer at the rate of 0.2% of the consideration for, or market value of, our Shares, whichever is higher.

Stamp duty is borne by the purchaser unless there is an agreement to the contrary. Where an instrument of transfer is executed outside Singapore or no instrument of transfer is executed, no stamp duty is payable on the acquisition of our Shares. However, stamp duty may be payable if the instrument of transfer is executed outside Singapore and is received in Singapore.

Stamp duty is not applicable to electronic transfers of our Shares through the scripless trading system operated by CDP.

*Estate duty*

Singapore estate duty was abolished with respect to all deaths occurring on or after 15 February 2008.

*Goods and Services Tax ("GST")*

The sale of our Shares by a GST-registered investor belonging in Singapore for GST purposes to another person belonging in Singapore is an exempt supply not subject to GST. Any input GST incurred by the GST-registered investor in making an exempt supply is generally not recoverable from the Singapore Comptroller of GST.

Where our Shares are sold by a GST-registered investor in the course of or furtherance of a business carried on by such investor contractually to and for the direct benefit of a person belonging outside Singapore, the sale should generally, subject to satisfaction of certain conditions, be considered a taxable supply subject to GST at 0%. Any input GST incurred by the GST-registered investor in making such a supply in the course of or furtherance of a business may be fully recoverable from the Singapore Comptroller of GST.

Services consisting of arranging, broking, underwriting or advising on the issue, allotment or transfer of ownership of our Shares rendered by a GST-registered person to an investor belonging in Singapore for GST purposes in connection with the investor's purchase, sale or holding of our Shares will be subject to GST at the standard rate of 7%. Similar services rendered by a GST registered person contractually to and for the direct benefit of an investor belonging outside Singapore should generally, subject to the satisfaction of certain conditions, be subject to GST at 0%.

**(d) Consultation with professional advisers**

Potential holders of our Shares are recommended to consult their professional advisers if they are in any doubt about the taxation implications of the subscription, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares. It is emphasized that none of our Company, our Joint Sponsors, any of their respective directors, agents, employees, advisers or affiliates or any other person involved in the Listing accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

**2. Bilingual Prospectus**

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copy of each of the WHITE and YELLOW Application Forms;
- (b) the written consents referred to in the paragraph headed “Appendix V — Statutory and General Information — E. Other Information — 9. Consents of Experts” of this Prospectus; and
- (c) a copy of each of the material contracts referred to in the section titled “Appendix V — Statutory and General Information — B. Further Information about The Business of Our Group — 1. Summary of the material contracts” in this Prospectus.

Copies of the following documents will be available for inspection at the office of Herbert Smith Freehills at 23<sup>rd</sup> Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- (a) The Memorandum of Association and the Bye-laws;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this Prospectus;
- (c) the report to the unaudited pro forma financial information of our Group prepared by Ernst & Young, the text of which is set out in Appendix II to this Prospectus;
- (d) a statement of adjustment prepared by Ernst & Young;
- (e) the audited consolidated financial statements of our Group for the three financial years ended December 31, 2016, 2017 and 2018;
- (f) the annual reports of our Company for each of the three years ended December 31, 2016, 2017 and 2018;
- (g) the letter issued by Allen & Gledhill LLP, our legal advisor as to Singapore law, summarizing certain aspects of the laws of Singapore referred to in Appendix IV to this Prospectus;
- (h) the letter issued by Appleby, our legal advisor as to Bermuda law, summarizing certain aspects of Bermuda company law as referred to in Appendix III to this Prospectus;
- (i) the PRC legal opinions issued by Zhong Lun Law Firm, our legal advisor as to PRC law;
- (j) the consent letters of each of the experts named under the section headed “Qualifications of experts” in Appendix V to this Prospectus;

- (k) the material contracts referred to in the paragraph headed “Summary of the material contracts” under the section headed “Further Information about the Group” in Appendix V to this Prospectus;
- (l) the Frost & Sullivan Report; and
- (m) the service agreements and appointment letters referred to in the paragraph headed “Particulars of Directors’ service contracts and letters of appointment” referred to in Appendix V to this Prospectus.

In addition, prospective investors and Shareholders can access copies of the following documents via the following weblinks:

- (a) **The Singapore Securities and Futures Act (Chapter 289) of Singapore**  
<http://statutes.agc.gov.sg/>
- (b) **The Singapore Code on Takeovers and Mergers**  
<http://www.mas.gov.sg>
- (c) **The Singapore Listing Manual**  
[http://www.sgx.com/wps/portal/corporate/cp-en/listing\\_on\\_sgx/listing\\_manual](http://www.sgx.com/wps/portal/corporate/cp-en/listing_on_sgx/listing_manual)
- (d) **Bermuda Companies Act**  
<http://www.bma.bm/legislation/Companies/Companies%20Act%201981.pdf>

Any information contained in, or that can be accessed via, the above websites does not constitute or form part of this Prospectus.





**China Everbright Water Limited**  
中國光大水務有限公司