



ELL
Environmental
Holdings Limited

ELL Environmental Holdings Limited

强泰環保控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1395



**SHARE
OFFER**

Sponsor

Quam 華富嘉洛
CAPITAL 企業融資

Sole Global Coordinator

Quam 華富嘉洛
Securities & Futures 證券期貨

Joint Bookrunners and Joint Lead Managers

Quam 華富嘉洛
Securities & Futures 證券期貨

Convoy Investment Services Limited

康宏証券投資服務有限公司

Co-Lead Manager

YICKO 益高證券有限公司
YICKO SECURITIES LIMITED

* For identification purpose only

IMPORTANT

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



ELL ENVIRONMENTAL HOLDINGS LIMITED

強泰環保控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	:	200,000,000 Shares
Number of Public Offer Shares	:	20,000,000 Shares (subject to re-allocation)
Number of Placing Shares	:	180,000,000 Shares (subject to re-allocation)
Maximum Offer Price	:	HK\$0.6 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund on final pricing)
Nominal Value	:	HK\$0.0001 per Share
Stock Code	:	1395

Sponsor



Sole Global Coordinator



Joint Bookrunners and Joint Lead Managers



Convoy Investment Services Limited
康宏証券投資服務有限公司

Co-lead Manager



Co-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 to it the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, 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 of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 19 September 2014 and, in any event, not later than Wednesday, 24 September 2014. The Offer Price will be not more than HK\$0.6 and is currently expected to be not less than HK\$0.4 unless otherwise announced. Applicants for the Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.6 for each Public Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined should be lower than HK\$0.6.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of the Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$0.4 to HK\$0.6 per Offer Share) at any time on or before the morning of the last day for lodging applications under the Share Offer. In such case, notices of the reduction in the number of the Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Share Offer. Such notices will also be available at our website at www.ellhk.com and the website of the Stock Exchange at www.hkexnews.hk. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, the Public Offer will not proceed and will lapse. Further details are set out in the sections headed "Structure of the Share Offer" and "How to Apply for the Public Offer Shares" in this prospectus.

The obligations of the Underwriters under the Public Offer Underwriting Agreement to procure subscribers for, or themselves to subscribe for, the Public Offer Shares are subject to termination by the Sponsor or the Sole Global Coordinator (for itself and on behalf of the Underwriters) if certain grounds arise before 8:00 a.m. on the day that trading in the Offer Shares is due to commence on the Stock Exchange. These grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Grounds for termination of the Public Offer Underwriting Agreement" in this prospectus. It is important that you refer to that section for further details.

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 headed "Risk Factors" in this prospectus.

* For identification purpose only

12 September 2014

EXPECTED TIMETABLE

(Note 1)

Application lists of the Public Offer

open^(Note 2) at 11:45 a.m. on Wednesday, 17 September 2014

Latest time to lodge **WHITE** and **YELLOW**

Application Forms at 12:00 noon on Wednesday, 17 September 2014

Application lists of the Public Offer

close^(Note 2) at 12:00 noon on Wednesday, 17 September 2014

Price Determination Date^(Note 3) to be on or around Friday, 19 September 2014

Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.ellhk.com** on Thursday, 25 September 2014

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer to be available through a variety of channels as described under the section headed “How to Apply for the Public Offer Shares — 8. Publication of Results” in this prospectus on Thursday, 25 September 2014

Despatch/collection of refund cheques in respect of wholly successful (if applicable) and wholly or partially unsuccessful applications under the Public Offer^(Notes 4 and 6) on or around Thursday, 25 September 2014

Despatch/collection of Share certificates of the Offer Shares or deposit of Share certificates of the Offer Shares into CCASS in respect of wholly or partially successfully applications under the Public Offer^(Notes 5 and 6) on or around Thursday, 25 September 2014

Dealings in the Shares on the Stock Exchange to commence on Friday, 26 September 2014

Notes:

1. All times and dates refer to Hong Kong local times and dates. We will publish an announcement in Hong Kong in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.ellhk.com** if there is any change to the above expected timetable.

EXPECTED TIMETABLE

2. The application lists will not open if there is (a) a tropical cyclone warning signal number 8 or above, or (b) a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 17 September 2014. Instead they will open between 9:00 a.m. and 12:00 noon on the next business day (as defined in the Listing Rules) 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 Wednesday, 17 September 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong which may affect the dates mentioned in the above expected timetable, an announcement will be made in such event.
3. The Price Determination Date is expected to be on or about Friday, 19 September 2014, and in any event no later than 6:00 p.m. on Wednesday, 24 September 2014. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on or before 6:00 p.m. on Wednesday, 24 September 2014, the Share Offer will not proceed and will lapse.
4. Refund cheque(s) crossed “Account payee only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (a) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (b) 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 Stock Exchange trading fee but without interest) will be sent to you by ordinary post at your own risk. 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 cheque, if any. Your bank 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).
5. Share certificates will only become valid at 8:00 a.m. on Friday, 26 September 2014 provided that the Share Offer has become unconditional and the right of termination described under the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade the Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk. If the Share Offer does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as practicable.
6. (a) **If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more 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 Boardroom Share Registrars (HK) Limited at 31st Floor, 148 Electric Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 25 September 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong branch 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 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 25 September 2014, by ordinary post and at your own risk.

EXPECTED TIMETABLE

(b) **If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described in paragraph 6(a) above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 25 September 2014, 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 Thursday, 25 September 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

Please refer to the sections headed "Structure of the Share Offer" and "How to Apply for the Public Offer Shares" in this prospectus for details of the structure and conditions of the Share Offer and the procedures for applying for the Public Offer Shares.

CONTENTS

This prospectus is issued by us solely in connection with the Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Public Offer Shares offered by this prospectus pursuant to the Public Offer. 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 or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the related Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus and the related Application Forms.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees, advisers or affiliates or any other persons or parties involved in the Share Offer.

	Page
Expected Timetable	i
Summary	1
Definitions	16
Glossary	25
Forward-Looking Statements	27
Risk Factors	29
Information About this Prospectus and the Share Offer	51
Directors and Parties Involved in the Share Offer	55
Corporate Information	58
Industry Overview	60
Regulatory Overview	75
History, Reorganisation and Corporate Structure	87
Business	98
Relationship with Our Controlling Shareholders	168
Connected Transaction	173
Directors and Senior Management	175

CONTENTS

	Page
Substantial Shareholders	186
Share Capital	188
Financial Information	191
Future Plans and Use of Proceeds	246
Underwriting	248
Structure of the Share Offer	258
How to Apply for the Public Offer Shares	264
Appendix I — Accountants' Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Summary of the Constitution of our Company and the Cayman Islands Company Law	III-1
Appendix IV — Statutory and General Information	IV-1
Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection	V-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial information appearing elsewhere in this prospectus. As this is a summary, it does not contain all the information that may be important to you and we urge you to read the entire prospectus carefully before making your investment decision. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a wastewater treatment services provider with three wastewater treatment facilities in Jiangsu Province, China. We offer a one-stop approach to the provision of wastewater treatment services using the “Build — Operate — Transfer” (or BOT) model.

Our Group currently has three wastewater treatment projects in operation, all of which are at a relatively early stage in their respective concession periods. None of the concession periods of our three wastewater treatment projects will expire prior to 2035. Under the relevant BOT agreements, we will receive a guaranteed minimum tariff regardless of the actual volume of wastewater treated by each of our wastewater treatment facilities.

We obtained all of our BOT projects without undergoing any competitive tender process required by the applicable PRC laws and regulations. We cannot assure you that we will be successful when tendering for future wastewater treatment projects. In addition, we cannot assure you that we will be able to raise sufficient funds through equity or debt financing for future projects. Even if our Group cannot obtain new wastewater treatment projects, as none of the concession periods of our three wastewater treatment projects will expire prior to 2035, we will still have stable income for the coming 21 years.

Our wastewater treatment facilities were built and operated without full compliance with all applicable laws and regulations. To the extent applicable, we have fully rectified the non-compliance incidents. Please refer to the section headed “Business — Legal and Regulatory Compliance” in this prospectus for details.

During the years ended 31 December 2011, 2012 and 2013, our total revenue grew from approximately HK\$44.6 million in 2011 to approximately HK\$46.9 million in 2012 and to approximately HK\$65.1 million in 2013, representing a CAGR of approximately 20.9%. Our total revenue grew from approximately HK\$25.0 million for the five months ended 31 May 2013 to HK\$35.5 million for the five months ended 31 May 2014, representing an increase of approximately 42.2%.

SUMMARY

OUR BOT PROJECT MODEL

Under the BOT project model, the relevant local government authorities or administrative committees usually grant the project company a concessionary right to build and then operate the relevant facility for a specific period of time pursuant to a BOT agreement. The land necessary to carry out such operations is typically provided by the local government authorities or administrative committees pursuant to the BOT agreement. During the concession period, the project company is normally responsible for designing, constructing, operating and maintaining the facility as well as financing its construction. In return, the project company is granted the exclusive right to carry out certain functions or operations for service payments, which includes a guaranteed minimum tariff regardless of the actual volume of wastewater treated by the respective wastewater treatment facility, essentially guaranteeing us a certain level of cash payment from customers. Upon expiry of the concession period, the project company typically cedes control and rights of use of the facility, its equipment and the land it occupies to the government or another party specified in the BOT agreement for nil consideration. Please refer to the section headed “Business — Our BOT Project Model” in this prospectus for details.

Our Group has three wastewater treatment projects which includes (i) the Haian Hengfa Facility which involved the design, construction and operation of a municipal wastewater treatment facility, (ii) the Rugao Hengfa Facility which involved the design, construction and operation of a wastewater treatment facility to treat a mixture of municipal and industrial wastewater, and (iii) the Rugao Honghao Facility which involves the operation of a wastewater treatment facility to treat wastewater containing various types of water soluble heavy metals. As the Rugao Honghao Facility was acquired by our Group in February 2013 (details of the acquisition are set out in the section headed “History, Reorganisation and Corporate Structure” in this prospectus), we were not involved in the design and construction of the Rugao Honghao Facility.

MINIMUM GUARANTEED TARIFF

Each of our BOT agreements includes a minimum guaranteed tariff which is calculated based on the agreed maximum capacity of the respective wastewater treatment facility rather than the actual volume of wastewater treated. This tariff effectively ensures that regardless of the actual volume of wastewater treated by our facilities, which may fluctuate or fall short of the agreed maximum capacity from time to time, we are guaranteed a minimum amount of income to generate a return on investment.

In respect of any shortfall between the agreed maximum capacity of the facility and the actual volume of wastewater being treated, the wastewater treatment fees payable will be a percentage of the tariff (between 60% to 90%, depending on the terms of the relevant BOT agreement) multiplied by the shortfall volume.

SUMMARY

Our Directors estimate the revenue generated by the actual volume of wastewater treated and revenue generated by the shortfall volume between the agreed maximum capacity and the actual volume of wastewater treated during the Track Record Period as follows:

	Year ended 31 December			Five months ended 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue generated by the actual volume of wastewater treated	17,810	22,498	25,742	9,665
Revenue generated by the shortfall volume between the agreed maximum capacity and the actual volume of wastewater treated	<u>16,494</u>	<u>13,966</u>	<u>25,767</u>	<u>12,725</u>
Sub-total	34,304	36,464	51,509	22,390
Revenue generated from construction services	—	—	—	7,189
Imputed interest income on receivables under service concession arrangement...	<u>10,256</u>	<u>10,436</u>	<u>13,581</u>	<u>5,962</u>
Total	<u>44,560</u>	<u>46,900</u>	<u>65,090</u>	<u>35,541</u>

Our operational results or gross profit may not be directly proportional to the increased amounts of wastewater treated by our facilities as the wastewater treatment fees which we receive under our BOT agreements typically include a tariff for the actual volume of wastewater treated and a discount of the tariff for the shortfall between the agreed maximum capacity of the facilities and the actual volume of wastewater treated, therefore the additional operating costs incurred for treating such increased amounts may partially offset or even exceed the additional revenue gained from treating the increased volume of wastewater. As certain of the operating costs, such as electricity and raw material costs, will not be incurred for the revenue generated by the shortfall volume, an increase in the utilisation rate of our wastewater treatment facilities in the future is expected to increase the operating costs, if such additional operating costs incurred for treating such increased amounts of wastewater exceed the additional revenue gained from treating the increased volume of wastewater, and as a result, the gross profit and gross profit margin for the relevant facility may be reduced.

WASTEWATER TREATMENT FACILITIES

The table below sets out a summary of our three wastewater treatment facilities:

General				Concession Period (as extended by the respective supplemental BOT agreement, where applicable)			Wastewater Treatment		
Project	Location (in Jiangsu Province)	Total Investment up to 31 May 2014 (approximately HK\$ million)	Our Equity Interest in the Project	Type of Wastewater Treated during the Track Record Period	Initial Commencement Date	Duration and Expiry Date of the Concession Period	Total Constructed Capacity as at 31 May 2014 (tons per day)	Volume of Wastewater Treated (tons) ⁽³⁾	Utilisation Rate ⁽⁴⁾
Haian Hengfa Municipal Wastewater Treatment Facility	Haian County, Nantong City	Phase I: 21.8	70% ⁽¹⁾	Municipal	Phase I: 18 December 2002	Phase I: initially for 28 years, and subsequently extended to 34 years to expire on 25 May 2036	40,000 ⁽²⁾	8,958,904 (2011)	61.4% (2011)
		Phase II: 42.0			Phase II: 26 November 2013 ⁽²⁾	8,739,989 (2012)		59.9% (2012)	
		Upgrade works commenced in March 2014; 4.3				Phase II: 22.5 years, to expire on 25 May 2036		9,341,505 (2013)	64.0% (2013)
Rugao Hengfa Municipal and Industrial Wastewater Treatment Facility	Rugao ETDZ, Rugao City	Phase I: 28.9	100%	Municipal and Industrial	Phase I: 7 February 2007	Phase I: initially for 25 years, and subsequently extended to 28 years to expire on 28 April 2035	40,000	5,062,383 (2011)	34.7% (2011)
		Phase II: 61.0			Phase II: 29 April 2010	7,018,000 (2012)		48.1% (2012)	
		Improvement works carried out in January 2014; 2.0				Phase II: 25 years, to expire on 28 April 2035		7,697,505 (2013)	52.7% (2013)
Rugao Honghao Heavy Metal Wastewater Treatment Facility	Rugao ETDZ, Rugao City	62.6	100%	Heavy Metal	15 November 2011	28 years, to expire on 14 November 2039	3,500	— (2011)	— (2011)
						14,950 (2012)		1.2% (2012)	
						25,672 (2013)		2.0% (2013) ⁽³⁾	
								18,682 (first five months of 2014) ⁽⁵⁾	3.5% (first five months of 2014) ⁽⁵⁾

Notes:

- Pursuant to the BOT agreement dated 25 September 2002 between the Haian County Construction Bureau and us, the remaining 30% of the equity interest is owned by the Haian Construction Development Investment, which is wholly-owned by Haian County Government Office of State Owned Assets Supervision and Management (海安縣政府國有資產監督管理辦公室).
- Phase II of the Haian Hengfa Facility actually began commercial operation prior to the Track Record Period, but due to protracted negotiations with the Haian County Construction Bureau, a BOT agreement officially recognising phase II of the Haian Hengfa Facility was not signed until 26 November 2013. Accordingly, the utilisation rate of the Haian Hengfa Facility was calculated based on the actual constructed capacity of 40,000 tons throughout the Track Record Period. According to the confirmation from Haian County Construction Bureau, the minimum guaranteed tariff for the Haian Hengfa Facility have been calculated based on an agreed maximum capacity of 40,000 tons per day from 4 January 2014 onwards. For further details regarding the legality and ownership of phase II of Haian Hengfa Facility, please refer to the section headed “Business — Real Property — Properties Occupied by our Group under the BOT Agreements — Note (1)” in this prospectus.
- The volume of wastewater treated by the Haian Hengfa Facility decreased by approximately 2.4% in 2012 and increased by approximately 6.9% in 2013. For the five months ended 31 May 2014, the volume of wastewater treated by the Haian Hengfa Facility was approximately 37.5% of the total volume treated by the facility in 2013. The volume of wastewater treated by the Rugao Hengfa Facility increased by 38.6% in 2012 and 9.7% in 2013. For the five months ended 31 May 2014, the volume of wastewater treated by the Rugao Hengfa Facility was approximately 41.2% of the total volume treated by the facility in 2013. The aforesaid fluctuations in volume of wastewater treated were caused by the fluctuation in the volume of wastewater supplied to us by our customers, which we have no control over. Our Directors confirmed that the fluctuation of the volume of wastewater treated by our wastewater treatment facilities during the Track Record Period was due to the different amounts of wastewater supplied to us for treatment and was not because of any material disruptions to our operations. The Rugao Honghao Facility was not yet commercially operational in 2011, therefore the volume of wastewater treated by the Rugao Honghao Facility was nil for 2011. The Rugao Honghao Facility commenced commercial operations in 2012, but it was only acquired by our Group in February 2013. For the five months ended 31 May 2014, the volume of wastewater treated by the Rugao Honghao Facility was approximately 72.8% of the total volume treated by the facility in 2013. The increasing trend of volume of wastewater treated by the Rugao Honghao Facility in the first five months of 2014 was caused by the increase in the volume of wastewater supplied to us by our customers, which we have no control over.
- Determined (i) by dividing the volume of wastewater treated by the total constructed capacity per day multiplied by 365 days for 2011, 2012 and 2013, and (ii) by dividing the volume of wastewater treated by the total constructed capacity per day multiplied by 151 days for the first five months of 2014.
- The utilisation rate of the Rugao Honghao Facility was low as the local government had not been able to supply sufficient wastewater to the Rugao Honghao Facility for treatment. For more details regarding the low supply of wastewater to the Rugao Honghao Facility, please refer to the sections headed “Business — Competitive Strengths — Guaranteed tariffs and town planning protect us from fluctuations in the supply of wastewater provided to our wastewater treatment facilities” and “Business — Details of Our Wastewater Treatment Facilities — Rugao Honghao Facility — Low Utilisation Rate” in this prospectus.

SUMMARY

COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

- We have experience and proven track record in providing customised and integrated wastewater treatment services in Jiangsu Province;
- We are the early mover in the wastewater treatment industry in Nantong City, Jiangsu Province;
- We are well-positioned to benefit from the PRC government's increasing focus on environmental protection as well as the implementation of favourable government policies;
- We have strong working relationships with local government authorities and administrative committees in Jiangsu Province;
- Guaranteed tariffs and town planning protect us from fluctuations in the supply of wastewater provided to our wastewater treatment facilities; and
- Our management team is experienced and stable, with extensive industry knowledge and an in-depth understanding of our operations based on our experience from operating three wastewater treatment facilities in Jiangsu Province.

BUSINESS STRATEGIES

We intend to implement the following strategies:

- Strengthen our market position in Jiangsu Province through obtaining new wastewater treatment projects;
- Upgrade our existing wastewater treatment facilities; and
- Pursue selective strategic acquisitions, joint ventures, partnerships and other opportunities.

MARKET SHARE AND COMPETITIVE LANDSCAPE

Overall, the wastewater treatment industry in China is very fragmented with state-owned enterprises dominating the market. Whilst there are over 3,600 municipal wastewater treatment plants throughout the country by the end of 2013, it was estimated in the CBRE Industry Report that no single company or operator owns more than 5% market share in terms of revenue. The CBRE Industry Report projected that, in the foreseeable future, (i) PRC private companies would experience the fastest growth in the industry as compared to state-owned enterprises and foreign companies, and (ii) given the fragmented nature of the market, the industry is poised for consolidation.

SUMMARY

BOT PROJECT MODEL ACCOUNTING

Our BOT projects are considered service concession arrangements under HK(IFRIC) - Int 12 *Service Concession Arrangements*. Based on HKFRS, we recognise revenue from a BOT project both during the construction phase and the operational phase. However, according to the BOT arrangements, the actual cash inflow for our construction revenue from our BOT projects is only received in the form of cash payments (the wastewater treatment fees) during the operational phase of the relevant BOT projects. In accordance with HK(IFRIC) - Int 12 *Service Concession Arrangements* and other applicable accounting rules and principles, the key features of our accounting treatment for a BOT project are summarised in the paragraphs below. Please refer to the section headed “Financial Information — Critical Accounting Policies and Estimates” in this prospectus for details.

Construction Phase

Total revenue relating to the construction services is estimated on a cost-plus basis in which the construction margin is determined by CBRE Limited, an Independent Third-Party valuer, with reference to prevailing rates of gross margins of market comparables at the time of construction. The respective comparables’ rates of gross margins used for determining the construction margins of our BOT projects and the upgrade works of Haian Hengfa carried out during the five months ended 31 May 2014, which are selected by CBRE Limited by identifying relevant peer groups listed on various stock exchanges in the world, range from approximately 2.6% to approximately 58.0%. The construction margins used for our BOT projects and the upgrade works of Haian Hengfa carried out during the five months ended 31 May 2014, as determined by CBRE Limited using the median of the respective market comparables gross margins according to market practice, range from 11.2% to 17.3%. In relation to the improvement works of the Rugao Hengfa Facility carried out during the five months ended 31 May 2014, the construction margin adopted was 11%, being the minimum guaranteed investment return as agreed by Rugao ETDZ Administrative Committee as provided for in the relevant BOT agreement. As confirmed by CBRE Limited, such investment return of 11% is not unreasonable compared with observable return of similar construction projects of other companies.

Revenue is then recognised during the construction phase based on the percentage-of-completion method under HKAS 11 *Construction Contracts*, which is measured by reference to the estimated proportion of cost incurred to date to the estimated total costs of the relevant contract. Based on the terms of the BOT agreements, the revenue relating to construction services are estimated to be fully recovered through the guaranteed tariffs to be received over the entire life of the service concession arrangement as stipulated in the BOT concession agreement. As such, the revenue in respect of the construction services is first recognised in profit or loss in the period of construction with the corresponding receivable recorded as a “receivable under service concession arrangements” in our consolidated statements of financial position. The receivable related to the construction services will be billed to our customers over the operational phase of the service concession arrangement.

During the years ended 31 December 2011, 2012 and 2013, we did not recognise any revenue from construction service. We recognised revenue from construction service during the five months ended 31 May 2014 for the upgrade works and improvement works carried out for the Haian Hengfa Facility and the Rugao Hengfa Facility, respectively. Please refer to the section headed “Financial Information — Review of Historical Operational Results — Revenue” for details.

SUMMARY

Operational Phase

During the operational phase, we record the amount of revenue when wastewater treatment services are rendered, and recognise a corresponding receivable under service concession arrangements. Revenue recognised during the operational phase accounts for the remainder of the total revenue from our BOT projects. The wastewater treatment fee billed for a given year comprises the fee from rendering of wastewater treatment service during that year and the fee related to construction services which has already been recognised as receivable under the service concession during the construction period as discussed above.

Imputed Interest

Imputed interest revenue is recognised from time to time on the receivables under service concession arrangements on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts (i.e., wastewater treatment fees) over the service concession period to the net carrying amount of the receivables. The relevant discount rate is determined by CBRE Limited using the median of the yields of PRC listed and actively traded corporate bonds of comparable PRC infrastructure companies with a maturity of 15 to 30 years, which is in line with the concession periods of our facilities, according to market practice. The assessment of comparability of the aforesaid selected PRC infrastructure companies involved, to certain extent, the subjective judgement of CBRE Limited. Based on the above, the relevant interest rates used for our BOT projects, as determined by CBRE Limited, range from 4.02% to 5.99%. The imputed interest revenue is included in the revenue in profit or loss.

Receivables under Service Concession Arrangement

Components of the receivables under service concession arrangement included (i) the consideration receivables for our construction services at initial recognition, (ii) imputed interest on such receivables which would be recognised from time to time, and (iii) consideration receivables for our wastewater treatment service rendered. Upon billing of our wastewater treatment fees, we transfer the respective receivables under the service concession arrangements from unbilled portion to billed portion. Such billed receivables under the service concession arrangements will be settled upon receipt of cash payments. Receivables under service concession arrangements are measured at amortised cost less impairment. We assess the impairment of our receivables under service concession arrangements at the end of each reporting period in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* throughout their respective concession periods. Our receivables under service concession arrangements are assessed at the end of each reporting period as to whether there is objective evidence that such receivables are impaired. Objective evidence of impairment is observable data that comes to our attention after the initial recognition of such receivable which has an impact on the estimated future cash flows of the receivable that can be reliably estimated. If the evidence exists, impairment loss is determined and recognised. Details of the assessment of impairment are set out in the section headed “Financial Information — Impairment of Financial Assets” in this prospectus. With the combined effect of the accumulation of imputed interest and the settlement in the operational phase, the receivable under service concession arrangements would be fully settled at the end of the concession period.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION OF OUR GROUP

The following tables set forth our summary consolidated financial information for the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2013 and 2014, and as at 31 December 2011, 2012 and 2013 and 31 May 2014. The results were prepared on the basis of presentation as set out in the Accountants' Report and the summary of the consolidated financial information should be read in conjunction with the consolidated financial information set out in the Accountants' Report, including the related notes, the text of which is set out in Appendix I to this prospectus.

Operational Results

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Revenue*	44,560	46,900	65,090	24,993	35,541
Gross profit	34,052	36,550	49,321	20,190	22,134
Profit before tax	31,325	34,007	47,974	22,211	7,460
Profit for the year	25,541	27,034	33,894	16,487	2,027
Profit attributable to owners of the parent	23,985	25,491	32,259	15,839	1,055
Gross profit margin (%)	76.4%	77.9%	75.8%	80.8%	62.3%
Net profit margin (%)	57.3%	57.6%	52.1%	66.0%	5.7%

Our revenue from wastewater treatment services (excluding imputed interest income) increased from approximately HK\$34.3 million in 2011 to approximately HK\$36.5 million in 2012. During this period, the total volume of wastewater that we treated increased, but this was partially offset by a decrease in tariff at the Rugao Hengfa Facility as prescribed in its BOT agreement. Our revenue from wastewater treatment services (excluding imputed interest income) increased from approximately HK\$36.5 million in 2012 to approximately HK\$51.5 million in 2013, which was primarily attributable to the acquisition of Rugao Honghao in early 2013, which contributed approximately 26.3% of our total revenue from wastewater treatment services (excluding imputed interest income) for 2013. Our revenue from wastewater treatment services (excluding imputed interest income) increased from approximately HK\$19.8 million in the five months ended 31 May 2013 to approximately HK\$29.6

* Total revenue relating to the construction services is estimated on a cost-plus basis in which the construction margin is determined by CBRE Limited. The construction margins used for our BOT projects and the upgrade works of the Haian Hengfa Facility carried out during the five months ended 31 May 2014 range from 11.2% to 17.3%. In relation to the improvement works of the Rugao Hengfa Facility carried out during the five months ended 31 May 2014, the construction margin adopted was 11%, being the minimum guaranteed investment return as agreed by Rugao ETDZ Administrative Committee in the relevant BOT agreement. Please refer to the paragraph headed "BOT Project Model Accounting — Construction Phase" in this section and the section headed "Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition" in this prospectus for details.

SUMMARY

million in the five months ended 31 May 2014, which was primarily attributable to increased total volume of wastewater treated and the upgrade works of the Haian Hengfa Facility and improvement works of the Rugao Hengfa Facility carried out in the five months ended 31 May 2014, which in turn resulted in the recognition of revenue of approximately HK\$7.2 million for construction services during the same period. We did not recognise any revenue for construction services during the years ended 31 December 2011, 2012 and 2013. Please refer to the section headed “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition” in this prospectus for details.

Our profit attributable to owners of the parent increased by approximately 6.3% in 2012 primarily due to the aforesaid reasons related to the increase in revenue, and approximately 26.6% in 2013 primarily due to the contribution from Rugao Honghao. Our profit attributable to owners of the parent decreased by approximately 93.3% in the five months ended 31 May 2014 as compared to the five months ended 31 May 2013, primarily due to the substantial increase in our administrative expenses due to professional fees incurred in connection with the Listing.

Our net profit margin decreased from 57.3% in 2011 to 52.1% in 2013 primarily due to the decrease in gross profit margin, increase in administrative expenses and increase in our Group’s effective tax rate. Our net profit margin decreased from approximately 66.0% to approximately 5.7% in the five months ended 31 May 2014 as compared to the five months ended 31 May 2013, primarily due to (i) the recognition of construction revenue and construction costs during the five months ended 31 May 2014 in relation to the upgrade works of the Haian Hengfa Facility and improvement works of the Rugao Hengfa Facility, for which the gross profit margin as determined by CBRE Limited is lower than the gross profit margin for the operation of our wastewater treatment facilities and (ii) the substantial increase in our administrative expenses due to professional fees incurred in connection with the Listing. We recognised approximately HK\$1.6 million and HK\$11.7 million of listing expenses in our consolidated statement of comprehensive income for the year ended 31 December 2013 and the five months ended 31 May 2014, respectively. Excluding such listing expenses, we would have recorded net profit margin of approximately 54.5% and 38.5% for such periods, respectively. Please refer to the section headed “Financial Information — Review of Historical Operational Results” in this prospectus for details.

Financial Position

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Non-current assets	207,707	209,432	292,124	285,075
Current assets	154,482	224,537	133,558	71,252
Current liabilities	124,435	164,080	81,892	27,652
Net current assets	30,047	60,457	51,666	43,600
Total assets less current liabilities	237,754	269,889	343,790	328,675
Non-current liabilities	93,571	96,817	128,538	38,932
Net assets	144,183	173,072	215,252	289,743
Equity attributable to owners of the parent	121,408	148,551	188,346	262,721

SUMMARY

Key Financial Ratios

	As at 31 December			As at 31 May
	2011	2012	2013	2014
Gearing ratio	1.3	1.3	0.7	0.1
Current ratio	1.2	1.4	1.6	2.6
Quick ratio	1.2	1.4	1.6	2.6
	Year ended 31 December			Five months ended 31 May
	2011	2012	2013	2014
Return on equity (%)	19.8	17.2	17.1	N/A
Return on assets (%)	7.1	6.2	8.0	N/A
Interest coverage	N/A	94.7	22.0	26.9

LEGAL AND REGULATORY NON-COMPLIANCE

We had been or is involved in a number of non-compliance incidents which can broadly be classified into the following categories:

- (i) default by our Hong Kong incorporated subsidiary to lay audited profit and loss accounts and balance sheets at its annual general meetings within prescribed time limit and default in respect of paying up the registered capital of our PRC operating subsidiaries;
- (ii) non-compliance in respect of our business operation in the PRC, including but not limited to failure in obtaining construction related permits and environmental qualification certificates, failure in conducting open tender for our construction works and major procurement items, and failure in making adequate contribution for certain employees' social security insurance and housing provident funds; and
- (iii) lending to third parties by our PRC subsidiaries in contravention of the Lending General Provisions.

To the extent applicable, we have fully rectified all non-compliance incidents. As at the Latest Practicable Date, we had not been penalised for the non-compliance incidents and no provision for the penalty arising from any non-compliance incident was made. To ensure compliance of all applicable laws and regulations and prevent reoccurrence of similar non-compliance incidents in the future, we have enhanced our internal control measures. Please refer to the section headed "Business — Legal and Regulatory Compliance" in this prospectus for details.

RECENT DEVELOPMENTS

Our business operation remained stable after the Track Record Period. We did not experience any significant drop in revenue or a sharp increase in cost of operation up to 31 July 2014 as there were no changes to our general business model and the economic environment. For the two months ended

SUMMARY

31 July 2014, we treated 3.2 million tons of wastewater, representing a decrease of approximately 6.0% compared to the same period in 2013. Based on our unaudited management accounts, for the two months ended 31 July 2014, our gross profit margin was lower than that for the two months ended 31 July 2013, primarily due to (i) the upgrade works of Haian Hengfa Facility that commenced in March 2014 and (ii) the improvement works of the Rugao Hengfa Facility that were completed in July 2014, for which we recognised construction revenue at a lower gross profit margin than that of our wastewater treatment operations. We entered into a new loan agreement after the Track Record Period and drew down a loan of HK\$18.0 million in June 2014.

On 5 September 2014, we declared HK\$30.0 million of dividends to our then existing Shareholders, all of which is expected to be paid in cash prior to Listing. The payment of the aforesaid dividends will be funded wholly by our internal resources, including primarily dividends received from our subsidiaries. The payment of dividends is expected to reduce our net current asset value. Based on our unaudited management accounts, we recorded net current assets of approximately HK\$39.2 million as at 31 July 2014.

Prospective investors should note that our financial information subsequent to the Track Record Period is unaudited and may not reflect the full year results for the year ending 31 December 2014 and may be subject to adjustments based on audit.

MATERIAL ADVERSE CHANGES

Upgrade Works and Their Adverse Impact on Profit Margins

In order to meet the higher discharge and operation standards required by the local government of Haian County and Rugao City, respectively, as set out in their respective notices issued in 2013, (i) we started upgrading the Haian Hengfa Facility in March 2014 and expect to complete the upgrade by September 2014 with the capital expenditure estimated to be approximately HK\$10.2 million, and (ii) we expect to commence upgrading the Rugao Hengfa Facility in September 2014 and expect to complete the upgrade by December 2014 with the capital expenditure estimated to be approximately HK\$48.3 million. We expect to recognise revenue from the provision of construction services for the upgrading work during the year ending 31 December 2014. We also expect to incur construction costs which will in turn increase our cost of sales for the year ending 31 December 2014. Our overall gross and net profit margins for the year ending 31 December 2014 are expected to be adversely affected by the recognition of revenue and costs from the provision of construction services. Please refer to the sections headed “Risk Factors — Risks Relating to our Business — We plan to upgrade the Haian Hengfa Facility and Rugao Hengfa Facility in 2014 and recognise revenue from the construction of our wastewater treatment facilities under the terms of our BOT agreements, which may materially and adversely affect our Group’s gross profit margin” and “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition” in this prospectus for details. Save for the aforesaid impact on profit margins, the planned upgrade of the Haian Hengfa Facility and the Rugao Hengfa Facility are not expected to have any material adverse impact on our financial condition.

Listing Expenses and Their Adverse Impact on Net Profit and Net Profit Margin

According to HKAS 32 *Financial Instruments: Presentation*, expenses that are directly attributable to the issue of new shares are accounted for as a deduction from equity and the expenses

SUMMARY

which do not relate to the issue of new shares are recognised in the consolidated statements of comprehensive income as incurred. Expenses that relate jointly to the issue of new shares and the listing of existing shares are allocated between these activities based on the proportion of number of new shares issued relative to the total number of shares in issue and listed on the Stock Exchange. For the years ended 31 December 2011 and 2012, we did not record any listing expenses. The estimated total listing expenses to be borne by our Group, which is non-recurrent in nature, is estimated to be approximately HK\$32.1 million (assuming an Offer Price of HK\$0.5 per Offer Share, being the mid-point of the indicative Offer Price range), of which approximately HK\$10.5 million is directly attributable to the issue of the Offer Shares to the public and is to be accounted for as a deduction from equity. The remaining HK\$21.6 million is expected to be charged to our consolidated statement of comprehensive income.

Approximately HK\$1.6 million and HK\$16.3 million of the listing expenses was charged to our consolidated statement of comprehensive income for the year ended 31 December 2013 and for the seven months ended 31 July 2014, respectively. The remaining HK\$3.7 million is expected to be charged to our consolidated statement of comprehensive income for the period beginning 1 August 2014 and ending 31 December 2014. Accordingly, approximately HK\$20.0 million of listing expenses is expected to be charged to our consolidated statement of comprehensive income as administrative expenses for the year ending 31 December 2014. Such estimated increase in administrative expenses will materially affect the net profit and the net profit margin for the year ending 31 December 2014. Together with the aforementioned impact on our equity, the listing expenses is expected to result in material adverse changes in the financial position of our Group since 31 May 2014, being the date on which the latest audited financial statements of our Group were prepared. It should be noted that the listing expenses above are current estimate for reference only. The actual amount to be recognised in our consolidated financial statements for the year ending 31 December 2014 is subject to the terms of the Placing Underwriting Agreement and any adjustments based on the audit and changes in variables and assumptions. Further, our salaries and benefits (including remuneration of Directors and senior management) for the year ending 31 December 2014 are expected to increase mainly due to hiring of new staff in the Hong Kong office and payment of director fees to our Directors.

Profit Warning

In light of the abovementioned material adverse changes, we expect to issue a profit warning as soon as practicable after Listing.

No Fundamental Deterioration in the Commercial and Operational Viability

Our Directors are of the opinion that there is no fundamental deterioration in the commercial and operational viability in our business despite the expected increase in administrative expenses and our salaries and benefits (including remuneration of Directors and senior management) for the year ending 31 December 2014.

Save as disclosed above, our Directors confirm that, up to the Latest Practicable Date, there had been no material adverse change in the financial or trading positions or prospect of our Group since 31 May 2014, being the date to which the latest audited financial statements of our Group were

SUMMARY

prepared, and there had been no event since 31 May 2014 which would materially affect the information shown in the Accountants' Report. As far as we are aware, there was no material change in the general market conditions in our industry that had, or would have, a material adverse effect on our business operations or financial condition.

RISK FACTORS

Our business is subject to a number of risks, many of which are beyond our control and may have a material adverse effect on us.

We obtained all of our BOT projects without undergoing any competitive tender process required by the applicable PRC laws and regulations. Our PRC legal advisers advised us that our PRC incorporated subsidiaries, being corporate entities validly established and existing under the applicable PRC laws and regulations, will be permitted to participate in competitive tender processes for wastewater treatment projects if they meet the specific qualifications and requirements that the relevant local government authorities may formulate for such projects on a case-by-case basis. We cannot assure you that we will be successful when tendering for future wastewater treatment projects. In addition, we cannot assure you that we will be able to raise sufficient funds through equity or debt financing for future projects. In the event that we fail to secure new wastewater treatment projects for any of the aforementioned reasons, our sustainability and prospects after the expiry of the existing BOT agreements in 2035 or thereafter may be materially and adversely affected.

In particular, we derive all our revenue from two customers and the loss of any one of them could have a material adverse impact on our business, financial condition and operational results, and are exposed to the credit risk of and payment delays by our customers. For the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, the revenue attributable to the Haian County Construction Bureau accounted for approximately 26.8%, 26.3%, 20.3% and 30.4% of our Group's total revenue, respectively, and the revenue attributable to the Rugao ETDZ Administrative Committee accounted for approximately 73.2%, 73.7%, 79.7% and 69.6% of our Group's total revenue, respectively. We cannot assure you that we can secure further cooperation with the local government authorities and administrative committees after the expiry of our respective BOT agreements. In addition, as our customers are a local government authority and a local government administrative committee, their repayment period is usually longer than our credit period granted to them mainly due to the complexity of their internal administrative procedures. The turnover days of our billed receivables under service concession arrangements were approximately 134 days, 243 days, 224 days and 153 days for the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, respectively. We cannot assure you that our customers will continue to have access to sufficient funding or that the financial condition or creditworthiness of any of our customers will not deteriorate so that their ability to perform their payment obligations under the BOT agreements would be materially and adversely affected.

You are cautioned to carefully read the section headed "Risk Factors" in this prospectus before you decide to invest in the Offer Shares.

SUMMARY

THE SHARE OFFER AND OFFER STATISTICS

The Share Offer consists of:

- the offer by us of initially 20,000,000 Shares, or Public Offer Shares, for subscription by the public in Hong Kong; and
- the offer by us of initially 180,000,000 Shares, or Placing Shares, for subscription by institutional, professional, corporate and other investors (other than to retail investors in Hong Kong),

as further described in the section headed “Structure of the Share Offer” in this prospectus. The number of Public Offer Shares and Placing Shares, or together, Offer Shares, is subject to re-allocation as described in the section headed “Structure of the Share Offer” in this prospectus.

The statistics in the following table are based on the assumptions that (i) the Share Offer is completed and 200,000,000 Shares are newly issued in the Share Offer, and (ii) 800,000,000 Shares are issued and outstanding following the completion of the Share Offer:

	Based on an Offer Price of HK\$0.4	Based on an Offer Price of HK\$0.6
Market capitalisation of our Shares	HK\$320 million	HK\$480 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽¹⁾⁽²⁾	HK\$0.406	HK\$0.454

Notes:

- (1) The amount of unaudited pro forma adjusted consolidated net tangible assets per Share is calculated in accordance with Rule 4.29 of the Listing Rules after the adjustments referred to in Appendix II to this prospectus.
- (2) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account a special dividend of HK\$30.0 million declared on 5 September 2014 by our Company. Such dividend is expected to be paid before the Listing. Had the special dividend been taken into account, our unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$0.368 (assuming an Offer Price of HK\$0.4 per Share) and HK\$0.417 (assuming an Offer Price of HK\$0.6 per Share), respectively.

OUR SHAREHOLDERS

Upon completion of the Share Offer, the total issued share capital of our Company will be held as to 46.9% and 28.1% by Everbest Environmental and Wealthy Sea, respectively. Each of Everbest Environmental and Wealthy Sea and their respective ultimate shareholders had confirmed that he/she/it does not have an interest in a business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business.

SUMMARY

USE OF PROCEEDS

We estimate that the aggregate net proceeds payable to us from the Share Offer, after deducting underwriting fees and commissions and estimated expenses payable by us in connection with the Share Offer, will be approximately HK\$67.9 million assuming an Offer Price of HK\$0.5 (being the mid-point of the Offer Price range stated in this prospectus). We currently intend to apply these net proceeds in the following manner:

- approximately 9.7%, or approximately HK\$6.6 million, of the net proceeds to be used for the capital expenditure for the upgrade works of the Haian Hengfa Facility;
- approximately 71.1%, or approximately HK\$48.3 million, of the net proceeds to be used for the capital expenditure for the upgrade works of the Rugao Hengfa Facility;
- approximately 15.9%, or approximately HK\$10.8 million, of the net proceeds to be used for making potential investment into new wastewater treatment or other environmental protection projects. As at the Latest Practicable Date, we had not identified any targets for such investment or acquisition; and
- approximately 3.3%, or approximately HK\$2.2 million, of the net proceeds to be used for capital and general corporate purposes.

DIVIDEND

No dividend has been paid by Everbest Water Treatment Development to its shareholders during the Track Record Period and no dividend has been paid or declared by our Company since its incorporation up to the end of the Track Record Period. On 5 September 2014, we declared HK\$30.0 million of dividends to our then existing Shareholders, all of which is expected to be paid in cash prior to Listing. The payment of the aforesaid dividend will be funded wholly by our internal resources, including primarily dividends received from our subsidiaries. We currently do not have a formal dividend policy. The declaration of dividends is subject to our discretion, and the amounts of dividends actually declared and paid will also depend upon our operating results, financial condition, capital requirements, interests of our Shareholders and other factors which we may deem relevant. Please refer to the section headed “Financial Information — Dividend Policy” in this prospectus for more information for details.

DEFINITIONS

In this prospectus, the following expressions shall have the meanings set forth below unless the context otherwise requires.

“Application Form(s)”	WHITE and YELLOW application form(s) or, where the context requires, any of them relating to the Share Offer
“Articles of Association” or “Articles”	our articles of association, as conditionally adopted on 5 September 2014 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
“associate”	has the meaning ascribed to it under the Listing Rules except as used in the Accountants’ Report set forth in Appendix I to this prospectus
“Board of Directors” or “Board” or “our Board”	our board of Directors
“Business Day”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“CBRE”	CBRE Limited, the industry consultant commissioned by our Company to prepare an industry report in relation to the wastewater treatment industry in the PRC and an Independent Third Party
“CBRE Industry Report”	the industry report prepared by CBRE and commissioned by our Company in relation to the wastewater treatment industry in the PRC. Please refer to the section headed “Industry Overview” in this prospectus for details
“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
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“China” or “PRC”	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“close associate”	has the meaning ascribed to it under the Listing Rules
“Companies Law”	the Companies Law of the Cayman Islands (2013 Revision), as amended, supplemented, or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified 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, supplemented or otherwise modified from time to time
“Company” or “our Company”	ELL Environmental Holdings Limited, a company incorporated in the Cayman Islands on 25 February 2014
“connected person”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	Everbest Environmental, Ms. Wong, Ms. Chan, Mr. Chan, Wealthy Sea and Mr. Chau, being the controlling shareholders (as defined by the Listing Rules) of our Company
“core connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)” or “our Director(s)”	the director(s) of our Company or any one of them
“EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“ELL BVI”	ELL Environmental Limited, a wholly-owned subsidiary of our Company incorporated in the BVI on 25 February 2014
“Everbest Environmental”	Everbest Environmental Investment Limited, a company incorporated in the BVI on 25 February 2014, which is owned by Ms. Wong, Ms. Chan and Mr. Chan, as to 50%, 30% and 20%, respectively, and which is a Controlling Shareholder of our Company expected to hold 46.9% of our Company’s issued capital immediately upon Listing
“Everbest Investment BVI”	Everbest Water Treatment Investment Limited, a company incorporated in the BVI on 10 February 2004, which was indirectly owned by Ms. Wong and Ms. Chan as to 60% and 40%, respectively, immediately prior to the completion of the Reorganisation

DEFINITIONS

“Everbest Investment Haian”	Everbest Water Treatment Investment (Haian) Limited, a company incorporated in Hong Kong on 23 March 2004, which was indirectly owned by Ms. Wong and Ms. Chan as to 60% and 40%, respectively, immediately prior to the completion of the Reorganisation
“Everbest Water Treatment Development”	Everbest Water Treatment Development Company Limited, an indirect wholly-owned subsidiary of our Company incorporated in Hong Kong on 8 May 2002
“Grand Target”	Grand Target Holdings Limited, an indirect wholly-owned subsidiary of our Company incorporated in the BVI on 8 January 2013
“Greatcorp”	Greatcorp International Limited, a wholly-owned subsidiary of our Company incorporated in Hong Kong on 10 February 2010
“Group”, “we” or “us”	our Company and its subsidiaries or any one of them or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the time
“Haian Construction Development Investment”	Haian County Construction Development Investment Company Limited (海安縣城建開發投資有限責任公司), a limited liability company established in the PRC, which is wholly-owned by Haian County State-owned Assets Supervision and Administration Office (海安縣政府國有資產監督管理辦公室) and is an Independent Third Party
“Haian County Construction Bureau”	The Bureau of Housing and Urban-Rural Construction of Haian County (海安縣住房和城鄉建設局) (formerly known as 江蘇省海安縣建設局)
“Haian Hengfa”	Haian Hengfa Wastewater Treatment Company Limited (海安恆發污水處理有限公司), a non-wholly owned subsidiary of our Company and a limited liability company established in the PRC on 18 December 2002, held by our Company and Haian Construction Development Investment, as to 70% and 30%, respectively
“Haian Hengfa Facility”	the wastewater treatment facility operated by Haian Hengfa
“Haian Property”	Haian Hengfa Property Development Limited (海安恆發置業有限公司), a wholly-owned subsidiary of our Company and a limited liability company established in the PRC on 6 June 2003 and deregistered on 6 June 2014

DEFINITIONS

“HK\$” or “HK dollars” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong branch share registrar”	Boardroom Share Registrars (HK) Limited
“Independent Third Party(ies)”	independent third party or parties who is/are not connected with (within the meaning of the Listing Rules) any members of our Group, our Directors, the chief executives and the substantial shareholders of our Company and our subsidiaries and/or any of their respective associates
“Joint Bookrunners”	Quam Securities Company Limited and Convoy Investment Services Limited
“Joint Lead Managers”	Quam Securities Company Limited and Convoy Investment Services Limited, joint lead managers of the Share Offer
“Latest Practicable Date”	4 September 2014, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about Friday, 26 September 2014, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented, or otherwise modified from time to time
“Main Board”	the main board of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted on 5 September 2014 and effective from the Listing Date, as amended from time to time

DEFINITIONS

“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外經濟貿易部)
“Mr. Chan”	Chan Kwan, a Director, a Controlling Shareholder, our chief executive officer, a core connected person of our Company and a son of Ms. Wong
“Mr. Chau”	Chau On Ta Yuen, a Director, a Controlling Shareholder, our Chairman and a core connected person of our Company
“Ms. Chan”	Judy Chan (formerly known as Judy Leissner), a founder of our Group, a Controlling Shareholder, a connected person of our Company and the daughter of Ms. Wong
“Ms. Wong”	Wong Shu Ying, a Controlling Shareholder, a connected person of our Company and the mother of Ms. Chan and Mr. Chan
“Offer Price”	the final Hong Kong dollar price per Offer Share (excluding brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which Offer Shares are to be subscribed pursuant to the Public Offer, which will be not more than HK\$0.6 and is currently expected to be not less than HK\$0.4, to be determined as described in the section headed “Structure of the Share Offer — Determining the Offer Price” in this prospectus
“Offer Share(s)”	the Public Offer Share(s) and the Placing Share(s)
“Origin Holdings”	Origin Holdings (HK) Limited, a company incorporated in Hong Kong on 16 August 2006, which was owned by Ms. Wong and Ms. Chan, as to 60% and 40%, respectively, immediately prior to the completion of the Reorganisation
“PBOC”	the People’s Bank of China
“Placing”	the offer of the Placing Shares at the Offer Price to institutional, professional, corporate and other investors (other than to retail investors in Hong Kong), as further described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	180,000,000 Shares (subject to re-allocation as described in the section headed “Structure of the Share Offer” in this prospectus), which are the subject of the Placing
“Placing Underwriters”	the underwriters of the Placing

DEFINITIONS

“Placing Underwriting Agreement”	the placing underwriting agreement relating to the Placing to be entered into among our Company, our Controlling Shareholders, the Sponsor, the Sole Global Coordinator and the Placing Underwriters on or around the Price Determination Date
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement expected to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about Friday, 19 September 2014 (Hong Kong time) (or such later date as may be agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters)) and in any event no later than Wednesday, 24 September 2014, on which the Offer Price is to be fixed by the Price Determination Agreement
“Public Offer”	the offering of initially 20,000,000 Shares for subscription by the public in Hong Kong (subject to re-allocation as described in the section headed “Structure of the Share Offer” in this prospectus) for cash at the Offer Price and on the terms and subject to the conditions described in this prospectus and the Application Forms
“Public Offer Shares”	20,000,000 Shares (subject to re-allocation as described in the section headed “Structure of the Share Offer” in this prospectus) being offered by our Company for subscription at the Offer Price pursuant to the Public Offer
“Public Offer Underwriters”	the underwriters of the Public Offer listed in the section headed “Underwriting — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the public offer underwriting agreement dated 11 September 2014 relating to the Public Offer entered into among our Company, our Controlling Shareholders, the Sponsor, the Sole Global Coordinator and the Public Offer Underwriters

DEFINITIONS

“Public Utility Concession Rules”	collectively, the Opinion on Accelerating the Marketisation of Municipal Public Utilities Industry (關於加快市政公用行業市場化進程的的意見) promulgated and implemented by the Ministry of Construction (now known as the Ministry of Housing and Urban-Rural Development of the PRC) on 27 December 2002, 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》) promulgated by Ministry of Construction on 19 March 2004 and implemented on 1 May 2004, and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (《建設部關於加強市政公用事業監管的意見》) promulgated and implemented by the Ministry of Construction on 10 September 2005
“Quam Capital” or “Sponsor”	Quam Capital Limited, a corporation licensed by the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO
“Regulation S”	Regulation S under the Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the reorganisation of a group of companies now comprising our Group in preparation for the Listing completed on 25 February 2014, details of which are set forth under the section headed “History, Reorganisation and Corporate Structure” in this prospectus and under the section headed “Statutory and General Information — A. Further Information about our Company — 4. Reorganisation” in Appendix IV to this prospectus
“Rugao ETD Company”	Rugao Economic and Trade Development Company (如皋市經濟貿易開發總公司), a company wholly-owned by the Rugao ETDZ Administrative Committee and established in the PRC in February 1993 and an Independent Third Party
“Rugao ETD Group”	Rugao ETD Company and its subsidiaries, including Rugao Xinchai Company
“Rugao ETDZ”	Rugao Economic and Technological Development Zone (國家級如皋經濟技術開發區)
“Rugao ETDZ Administrative Committee”	Rugao ETDZ Administrative Committee (江蘇省如皋經濟開發區管委會)
“Rugao Hengfa”	Rugao Hengfa Water Treatment Company Limited (如皋恆發水處理有限公司), an indirect wholly-owned subsidiary of our Company established in the PRC on 27 November 2003
“Rugao Hengfa Facility”	the wastewater treatment facility operated by Rugao Hengfa

DEFINITIONS

“Rugao Honghao”	Rugao Honghao Metal Water Treatment Company Limited (如皋宏皓金屬表面水處理有限公司), an indirect wholly-owned subsidiary of our Company established in the PRC on 30 April 2010
“Rugao Honghao Facility”	the wastewater treatment facility operated by Rugao Honghao
“Rugao Xinchai Company”	Rugao Xinchai Village Infrastructure Development Company Limited (如皋市新柴農村基礎設施開發有限公司), a wholly-owned subsidiary of Rugao ETD Company established in the PRC on 8 December 2009 and an Independent Third Party
“SAFE”	State Administration of Foreign Exchange of the PRC (國家外匯管理局)
“SARS”	Severe Acute Respiratory Syndrome
“Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary shares in the capital of our Company with nominal value of HK\$0.0001 each
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme adopted by our Shareholders on 5 September 2014, further details of which are described in the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of our Share(s)
“Sole Global Coordinator”	Quam Securities Company Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers issued by the SFC, as amended, supplemented, or otherwise modified from time to time
“Track Record Period”	the period comprising the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014

DEFINITIONS

“Underwriters”	the Placing Underwriters and the Public Offer Underwriters
“Underwriting Agreements”	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
“United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction, as defined in Regulation S
“United States Person”	has the meaning given to it in Regulation S
“US\$”	United States dollars, the lawful currency of the United States
“Wealthy Sea”	Wealthy Sea Holdings Limited, a Controlling Shareholder and a company incorporated in Hong Kong on 28 April 1997, which is owned by Mr. Chau and Ms. Wong Mei Ling, as to 90% and 10%, respectively, and which is expected to hold 28.1% of our Company’s issued capital immediately upon Listing
“%”	per cent.

The English names of the PRC national, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.

GLOSSARY

The following glossary contains explanations and definitions of certain terms used in this prospectus as applicable to our Company and business. These terms and their meanings used in this prospectus may not correspond to standard industry meaning or usage of these terms.

“activated sludge”	wastewater that is mixed with bacteria, protozoa and air, thereby creating a conducive environment for such aerobic microorganisms to grow and multiply
“BOT”	build-operate-transfer, a project model in which the proprietor grants to a contracted enterprise the rights to undertake the financing, design, construction, operations and maintenance of certain facilities by concession agreement, which enterprise can charge a fee during the concession period to cover its costs of investment, operations and maintenance as well as obtain reasonable returns, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor
“building ownership certificate”	a certificate evidencing a holder’s right to use and occupy the property built atop the relevant parcel of land in the PRC
“CAGR”	compound annual growth rate
“CASS”	cyclic activated sludge system, a wastewater treatment system which employs activated sludge in the sequential time-based repetitive cycles of aeration, settlement and decantation to break down biological contaminants contained in sewage or wastewater
“CAST”	cyclic activated sludge technology, the practice of directing and controlling activated sludge reaction environments to maximise the removal of biological contaminants in sewage or wastewater
“COD”	chemical oxygen demand, a measure of the total organic content of waste, both degradable and refractory. It means the amount of oxygen required for maximum oxidation of the organic matter in a sample of waste
“commencement of construction work permit”	a permit allowing the holder to commence construction of a project as well as apply for the relevant building ownership certificate in the PRC
“completion acceptance certificates”	documents required to certify the acceptance of completion construction by the relevant construction bureau in the PRC

GLOSSARY

“construction land use planning permit”	a permit authorising the holder to survey, plan and design a parcel of land as well as apply for the relevant land use rights certificate in the PRC
“construction work planning permit”	a certificate evidencing government approval of a holder’s overall planning and designing of a project as well as allowing the holder to apply for the relevant commencement of construction work permit in the PRC
“environmental qualification certificate”	a certificate formerly required for the operation of environmental pollution treatment facilities that evidence the holder’s qualification to operate wastewater treatment facilities
“flocculation”	a process where solids in the wastewater are coagulated to form larger floss for easier separation
“land use rights certificate”	a certificate permitting the holder to use a parcel of land as well as apply for the relevant construction work planning permit in the PRC
“pH”	a measure of the acidity or basicity of an aqueous solution
“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”	the use of chemical and biological processes to reduce pollutants from wastewater before discharging it into a water body

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This prospectus contains forward-looking statements that state our intentions, beliefs, expectations or predictions for the future that are, by their nature, subject to significant risks and uncertainties.

Any statements contained in this prospectus that are not statements of historical fact may be deemed to be forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and the ability to implement such strategies;
- the future developments and competitive environment of the wastewater treatment industry;
- general economic, political and business conditions in China;
- changes to the regulatory environment and general outlook in China;
- our operations and business prospects;
- our capital expenditure plans;
- our financial condition;
- pending or future legal or regulatory proceedings;
- relationships with parties we contract and collaborate with to conduct our business;
- restrictions in our credit facilities and our ability to engage in certain transactions;
- changes to our dividend policy;
- changes in tax laws or the administration of such laws;
- exchange rate fluctuations and restrictions; and
- catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters.

The words “aim”, “anticipate”, “believe”, “consider”, “could”, “estimate”, “expect”, “forecast”, “going forward”, “intend”, “may”, “might”, “ought to”, “propose”, “plan”, “predict”, “project”, “seek”, “should”, “will”, “would”, “shall” or the negative of these terms or similar words or expressions, as they relate to us, are intended to identify these forward-looking statements. These

FORWARD-LOOKING STATEMENTS

forward-looking statements are based on various assumptions regarding our business strategies, plans and development activities as well as other capital spending, financing sources, the effects of regulations (including tax regulations), expectations concerning future operations, margins, profitability and competition.

Furthermore, these forward-looking statements merely reflecting our current view with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described under the section headed “Risk Factors” in this prospectus. Our financial condition may differ materially from the information contained in the forward-looking statements due to one or more of these risks or uncertainties.

Subject to the requirements of applicable laws and regulations, we do not have any obligation and undertake no 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 risks, uncertainties or 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 statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. Our business, financial condition and operational results could be materially and adversely affected by any of these risks and uncertainties. The trading price of the Offer Shares could decline if any of these risks and uncertainties materialises, and you may lose all or part of your investment. You should pay particular attention to the fact that we conduct our operations in China, the legal and regulatory environment of which may differ in some respects from that which prevails in other jurisdictions.

RISKS RELATING TO OUR BUSINESS

We may not be able to secure new wastewater treatment projects or expand our existing facilities

Our turnover is generated from our wastewater treatment projects. For our existing three wastewater treatment projects, the local government authorities or administrative committees awarded these projects to us directly. According to applicable PRC laws and regulations, such authorities or committees are required to conduct an open tender process for the selection of appropriate wastewater treatment service provider, where they will consider a number of factors, such as the credentials and qualifications of the bidder, the tender price and the technical design, for wastewater treatment projects. We cannot assure you that we will be successful when tendering for future wastewater treatment projects. In the event that we fail to secure new wastewater treatment projects, our sustainability and prospects after the expiry of the existing BOT agreements in 2035 or thereafter may be materially and adversely affected.

Under the BOT project model, the relevant local government authorities or administrative committees usually grant the project company a concessionary right to build and then operate the relevant facility for a specified period of time pursuant to a BOT agreement. Upon expiry of the concession period, the project company typically cedes control and rights of use of the facility, its equipment and the land it occupies to the government or any other party specified in the BOT agreement for nil consideration. Our sustainability after the expiry of the existing BOT agreements and future growth depends on our ability to secure and execute new projects as well as expand our existing facilities, which is in turn dependent on a number of factors, many of which are beyond our control, including:

- global, national and local economic conditions;
- urban planning of local government authorities or administrative committees in China;
- policies and regulatory requirements in the wastewater treatment services industry, including environmental standards and the level and effectiveness of government promotions of environmental protection measures that affect China's wastewater treatment services industry;
- local and foreign competition in China's wastewater treatment services industry;

RISK FACTORS

- availability of suitable land, infrastructure, equipment and other raw materials necessary for the development and operations of wastewater treatment facilities; and
- availability and cost of financing.

If we fail to secure and execute new projects or expand our existing facilities on terms and in a manner sufficient to support our future growth after the expiry of the existing BOT agreements, our business, financial condition and operation results could be materially and adversely affected. We cannot assure you that we can secure these new projects on favourable terms or at all. Furthermore, if we fail to successfully execute these projects, we may not be able to achieve the anticipated benefits.

We have limited experience in operating heavy metal wastewater treatment

The treatment of heavy metal wastewater requires the use of a wider range of chemicals than the treatment of municipal and industrial wastewater. Heavy metal wastewater discharged by each factory has a unique composition, which requires the use of different mixtures of chemicals for treatment. As such, the treatment of such wastewater discharged from different factories requires active and accurate calibration of chemical mixtures and reaction conditions. We have focused primarily on the treatment of municipal and industrial wastewater since our inception. The commercial operations of the Rugao Honghao Facility commenced and began treating heavy metal wastewater discharged by factories operating in the Rugao ETDZ in January 2012 and we acquired Rugao Honghao in February 2013. Our experience in the operation of heavy metal wastewater treatment is limited. Furthermore, in 2012, 2013 and the five months ended 31 May 2014, the Rugao Honghao Facility was, on average, operating at approximately 2.2% of the facility's constructed capacity. We have not fully tested our heavy metal wastewater treatment operations at constructed capacity or treated wastewater of different composition discharged from multiple factories. We cannot assure you that our operations in the Rugao Honghao Facility can be operated effectively or at all, when treating wastewater for a wider range of factories and/or at higher utilisation levels. Please refer to the section headed "Business — Details of our Wastewater Treatment Facilities — Rugao Honghao Facility — Low Utilisation Rate" in this prospectus for details.

We derive all our revenue from two customers and the loss of any one of them could have a material adverse impact on our business, financial condition and operational results

Pursuant to our BOT agreements, Haian Hengfa receives payment from the Haian County Construction Bureau while both Rugao Hengfa and Rugao Honghao receive payment from the Rugao ETDZ Administrative Committee. Hence, we derive all of our revenue from a government authority and an administrative committee, which had been and are expected to be our key customers for the remaining duration of the relevant concession periods. For the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, our revenue attributable to the Haian County Construction Bureau accounted for approximately 26.8%, 26.3%, 20.3% and 30.4% of the total revenue for each year/period, respectively, and the Rugao ETDZ Administrative Committee accounted for approximately 73.2%, 73.7%, 79.7% and 69.6% of the total revenue for each year/period, respectively.

RISK FACTORS

We cannot assure you that we can secure further cooperation with the local government authorities and administrative committees after the expiry of our respective BOT agreements. In particular, as the capacities and resources of such authorities and committees grow, they may carry out future wastewater treatment projects by themselves. In the event that the local government authorities and administrative committees cease their use of our services, our business operations will be materially and adversely affected.

We are exposed to risks associated with entering into contracts with PRC governmental entities

Our customers are a local government authority and a local government administrative committee in Nantong City, Jiangsu Province, China and we rely on them to fulfill their obligations under the BOT agreements, which require them to invest the necessary funds in establishing the pipeline network and pumping stations to supply wastewater to our wastewater treatment facilities. As such, our projects may be subject to delays or changes as a result of the changes in the PRC government's budgets or for other policy considerations. The PRC government's spending on infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in China's economy and changes in the PRC government's policies. Any change in such policies may also materially and adversely affect our existing and future wastewater treatment projects.

We also depend on the timely construction and proper operation of the pipeline network by the PRC government for the wastewater treatment process. However, we cannot assure you the proper operation of such pipelines. In the event that there is any defect in the pipelines, which delays or otherwise obstructs the supply of wastewater to our wastewater treatment facilities, the wastewater treatment process may be substantially disrupted and our ability to process the wastewater in a timely manner may be materially and adversely affected.

In addition, any unresolved disputes with PRC governmental entities could potentially lead to non-performance of their obligations under our BOT agreements or may take a considerably longer period of time to resolve than disputes with counterparties in the private sector, and payments due to us from these entities may be delayed as a result. Such entities may claim sovereign immunity as a defence to any claims we may make against them. In particular, the BOT agreement relating to the Rugao Honghao Facility provided that in the case of non-performance by Rugao ETDZ Administrative Committee in respect of such BOT agreement for any reasons, Rugao ETDZ Administrative Committee will be required to buy back the BOT project at an amount not exceeding the total investment costs not having been recovered by our Group together with interests at prevailing bank rates (excluding the construction margin). If this happens, we may not be able to recover our loss of income and/or any other consequential economic loss arising from such non-performance by our customer, including the related gross profit for our Group's construction service. The total investment costs not having been received by our Group for the development of the Rugao Honghao Facility as at 31 May 2014 was RMB13.0 million. For details relating to the investment costs of our wastewater treatment facilities, please refer to the section headed "Business — Project Financing" in this prospectus.

RISK FACTORS

We obtained our BOT projects without undergoing any competitive tender process required by the applicable PRC laws and regulations

Our PRC legal advisers advised us that according to the Public Utility Concession Rules, municipal public utility authorities are required to award public utility projects through competitive tender processes, which involve public announcements of potential projects through various channels and/or invitations to multiple potential project companies, inviting them to put in a tender. For each of our three BOT projects, we were invited by the relevant local government authority or administrative committee to negotiate a BOT agreement without undergoing any competitive tender process.

Our PRC legal advisers further advised us that the Public Utility Concession Rules do not specify any administrative penalty for the contravention of such competitive tender process requirements. As such, the legal implications or potential liability for the non-compliance with such requirements are uncertain. In addition, our PRC legal advisers advised us that the Public Utility Concession Rules impose the competitive tender requirements on the relevant government authorities awarding the BOT projects, rather than on the concessionaires of the BOT projects. Furthermore, as the tendering processes for public utility project could only have been organised by the relevant government authorities awarding such projects, we are not in a position to rectify or seek clarifications from any appropriate authorities with respect to the possible non-compliance of the aforementioned competitive tender process requirements by our customers, and the legal implications to our Group's operations resulting therefrom are also unclear. We cannot assure you that our BOT projects will not be deemed invalid by any competent authority in the future on the basis that we had obtained such projects without undergoing the competitive tender processes and no penalties will be imposed on us. Furthermore, we cannot assure you that future measures or interpretation of the Public Utility Concession Rules by any PRC regulatory authority will not pose material risks to our operation of the BOT projects that we obtained without undergoing competitive tender processes. All of these could result in our business and operational results being materially and adversely affected. Please refer to the section headed "Business — Our BOT Project Model" in this prospectus for further information.

We may not be able to adjust the wastewater treatment fees to fully reflect any increase in our actual costs

We operate and maintain existing wastewater treatment facilities in exchange for pre-agreed monthly wastewater treatment fees, which are calculated based on the agreed maximum capacity and treatment volume, from the local government authorities with respect to the municipal, industrial and heavy metal wastewater treatment services we provide. The wastewater treatment fees under our BOT agreements typically includes a tariff payment for actual volume of wastewater being treated and a discount tariff payment for the shortfall between the agreed maximum capacity of the facilities and the actual volume of wastewater being treated. Such tariff rates were pre-determined at the time we entered into the BOT agreements with the local government authority and administrative committee, respectively. For our projects, the BOT agreements contain provisions specifying the circumstances when the parties can adjust the tariff rates, which include changes in operation and management costs due to adjustments to government policies or inflation. Any tariff rate adjustment is subject to consent by the relevant customers.

RISK FACTORS

We cannot assure you that the relevant local government authority or administrative committee will approve our applications to increase the tariffs in the case of an increase in our actual costs. We also cannot assure you that such authority or committee will not reduce the tariffs correspondingly should the relevant benchmark prices or key cost indices decrease. Furthermore, even if the relevant local government authority or administrative committee agrees to adjust the tariff, we cannot assure you that such adjustment will fully and timely reflect any increase in our actual costs. If we incur significantly higher operating costs without a timely corresponding increase in the tariffs or in the event of a reduction in tariffs, we may not be able to sustain our profitability or we may even incur a loss, and as a result, our business, financial condition and operational results may be materially and adversely affected.

We are exposed to the credit risk of and payment delays by our customers

We are subject to the credit risks of our customers and our cash flow is dependent on our customers making prompt payment on billings for wastewater treatment services provided by us, in accordance with the agreed payment methods set out in our respective BOT agreements. Generally, we bill our customers shortly after the end of each month and allow our customers a credit period of up to 10 days after the end of each month, as prescribed in our BOT agreements. However, as our customers are a local government authority and a local government administrative committee, their repayment period is usually longer than our credit period granted to them mainly due to the complexity of their internal administrative procedures. In addition, we had not been paid on a regular basis by Rugao ETDZ Administrative Committee in respect of the services we provided to them under the BOT agreement for the Rugao Honghao Facility. We cannot assure you that our customers will continue to have access to sufficient funding or that the financial condition or creditworthiness of any of our customers will not deteriorate so that their ability to perform their payment obligations under the BOT agreements would be materially and adversely affected. Accordingly, we cannot assure you that we will be able to collect all or any part of our billed receivables under service concession arrangement within the credit terms granted by us, or at all. Our cash flow and financial performance could be severely and negatively affected by defaults and delays in payments by our customers which may be difficult to anticipate or prevent. As at 31 December 2011, 2012 and 2013 and 31 May 2014, our billed receivables under service concession arrangements past due but not impaired were approximately HK\$26.1 million, HK\$36.7 million, HK\$44.7 million and HK\$17.1 million, respectively. Non-payment or any delay in payments by our customers could materially and adversely affect our business, financial condition and operational results. For more details regarding our credit risk, please refer to the section headed “Financial Information — Market Risks — Credit Risk” in this prospectus.

Some of our wastewater treatment facilities were constructed on land parcels that are subject to third parties’ rights or land grant period that is shorter than the concession period under the relevant BOT agreement

Rugao Hengfa and Rugao Honghao do not hold any land use rights to the land parcels on which the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed, and the land use rights of such land parcels are held by and made available to us by two subsidiaries of our customer, Rugao ETDZ Administrative Committee. We were informed that the land use rights underlying phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility had been charged to Independent Third Party banks as security for certain bank loans. We have no control over the performance of the relevant

RISK FACTORS

lenders of their respective obligations under such bank loans and charges. In the event the chargees enforce their rights of sale against the land on which phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed upon as a result of any default on the aforesaid bank loans and charges, we may be forced to vacate the relevant land parcels and can no longer operate the Rugao Hengfa Facility and the Rugao Honghao Facility unless we relocate such facilities. If this happens, our business, financial condition, and operational results could be materially and adversely affected.

In addition, the land use rights held by us in respect of the land parcels on which the Haian Hengfa Facility was constructed were subject to a land grant period that expires on 18 March 2031, which is more than five years earlier than the expiry of the concession period for our operation of the Haian Hengfa Facility under the relevant BOT agreement. We cannot assure you that we will be able to extend or renew the relevant land grant period to 25 May 2036 or any such later date as may be agreed by the parties to the BOT agreement, in which case, we may not be able to continue using and occupying the relevant land parcels after 18 March 2031 and accordingly be required to vacate the Haian Hengfa Facility and suspend the operations thereof. If this happens, our business, financial condition, and operational results could be materially and adversely affected.

Please refer to the section head “Business — Real Property” in this prospectus for details.

We may not successfully manage our growth and expansion

We have focused primarily on the development and operation of wastewater treatment facilities in Nantong City, Jiangsu Province, China since our inception. In the future, we may opportunistically pursue strategic acquisitions, joint ventures, partnerships and other opportunities in wastewater treatment and other environmental protection projects in and outside China. Please refer to the section headed “Business — Business Strategies” in this prospectus for details. Expanding into other geographical locations and other environmental protection projects other than wastewater treatment facilities involves uncertainties and challenges due to our unfamiliarity with the local regulatory practices and customs, customer preferences and behaviour, the reliability of local contractors and suppliers, business practices, business environments and municipal-planning policies in such jurisdictions and the risk profiles of such new types of project.

In addition, expanding our business into new geographical locations would entail competition with other operators of wastewater treatment facilities and other environmental projects that have a better-established local presence, more familiarity with local regulatory and business practices and customs, and stronger ties with local government authorities and administrative committees, customers, suppliers, contractors and purchasers. As we may face challenges not previously encountered, we may fail to recognise or properly assess risks or take full advantage of opportunities, or otherwise fail to adequately leverage our past experience to meet challenges encountered when expanding into such new project types and geographical areas. Expanding into new project types and geographical locations requires a significant amount of capital and management resources. We will also need to manage the growth in our workforce to match the expansion of our business. We may also face considerable reputational and financial risks if any of the new projects we engage in the future is mismanaged or does not meet the expectations of our customers. Any of these factors could materially and adversely affect our business, financial condition and operational results.

RISK FACTORS

We are dependent on our senior management team

We attribute our success to the leadership and contributions of our experienced and stable management team with diverse backgrounds and substantial experience in the wastewater treatment industry. Our senior management team comprises, among others, Mr. Chan, Mr. Chau, Mr. Zhou Yinbing and Mr. Wang Zili, each of whom has at least seven years of experience in the growing wastewater treatment industry in China. Our continued success is therefore dependent to a large extent on our ability to retain the services of these key management personnel. The loss of their services without a timely and suitable replacement will materially and adversely affect our business, financial condition and operational results. For further details on the experience of our senior management team, please refer to the section headed “Directors and Senior Management — Senior Management” in this prospectus.

We may require substantial funding for our capital intensive and long-term projects

Our projects require us to make substantial capital investments during the construction phase of the projects, which lasts approximately nine to 24 months. We are responsible for the costs of construction of the wastewater treatment facilities, as well as the costs of operations, repairs and maintenance of such facilities during their respective concession periods which are also capital intensive. For details of the capital expenditures we incurred during the Track Record Period and expect to incur for the year ending 31 December 2014, please refer to the section headed “Financial Information — Capital Expenditures” in this prospectus. We typically receive no payment from our customers before or during the construction phase when we make substantial capital investments and are only entitled to receive regular payments from them after the construction is completed and commercial operation of the relevant facilities have commenced.

Furthermore, we expect to continue to identify and develop new projects as well as maintain and enhance our existing wastewater treatment facilities, which will require significant investment. Given that a substantial portion of our capital expenditures is incurred in advance of receiving any actual payments, our success is heavily dependent on our ability to continue to secure and successfully manage sufficient amounts of working capital. These substantial fundings for our business and operations may be raised by issuing equity or debt securities or by borrowing from banks or other sources. If in the event that we obtain funding through debt securities or borrowings from banks or other sources, our gearing ratio would increase correspondingly. Furthermore, our ability to obtain project financing is subject to a number of uncertainties, including, amongst other things:

- regulatory approvals to raise funds in the domestic or international markets;
- our financial condition, operational results, cash flows and credit history;
- the conditions of the global and domestic financial markets; and
- changes in PRC monetary policy with respect to bank lending practices and conditions.

RISK FACTORS

Our inability to raise sufficient funds through equity or debt financing for future projects could materially and adversely affect our ability to engage in new projects and hence our sustainability after the expiry of the existing BOT agreements. If we secure new projects but fail to secure sufficient funding for the capital expenditures required of any such projects, we may be prevented from fulfilling our financial obligations and business objectives under such new projects and our business, financial condition and operational results may be materially and adversely affected.

Our projects are subject to construction and operational risks

Developing wastewater treatment projects involves various risks, including, amongst others, construction and operational risks. The construction and operation of our projects, including any new project that we undertake, could be materially and adversely affected due to a number of factors, including:

- the contractors hired by us may not be able to complete the construction or installation work of our projects on time, within budget or to the specifications or standards we have set out in our contracts with them;
- shortages of, and price increases in, equipment, materials or labour;
- changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our projects;
- accidents during construction or operations of our wastewater treatment facilities;
- extreme adverse weather conditions, or fire, typhoons or other natural disasters;
- engineering, construction, regulatory and equipment problems;
- raw material suppliers for our projects may not supply the required raw materials in the expected quantities/quality or at all;
- governmental or other statutory approvals or other approvals that are required for construction, expansion or operation of our projects may be delayed or denied;
- delays in construction or commercial operation could increase financing costs of our business operations; and
- we may not be able to accurately estimate the pollutant levels in the wastewater entering our wastewater treatment facilities.

We cannot assure you that the construction and operation of our future projects will be successful. We may not achieve the expected economic benefits from our future projects and the failure to obtain the expected economic benefits could materially and adversely affect our business, financial condition and operational results.

RISK FACTORS

We may be unable to sustain our historical profit margins for our BOT projects involving industrial and heavy metal wastewater treatment services

In general, the profit margins for industrial and heavy metal wastewater treatment services are higher than that for municipal wastewater treatment services. During the Track Record Period, the Haian Hengfa Facility treated only municipal wastewater, the Rugao Hengfa Facility treated a mixture of municipal and industrial wastewater and the Rugao Honghao Facility treated heavy metal wastewater. Consequently, the Rugao Hengfa Facility and the Rugao Honghao Facility achieved average gross profit margins that were higher than that of the Haian Hengfa Facility. For details regarding our gross profit margins, please refer to the section headed “Financial Information — Review of Historical Operational Results — Gross Profit and Gross Profit Margin” in this prospectus. Our ability to sustain our gross profit margins or profit margins for the Rugao Hengfa Facility and the Rugao Honghao Facility depends on a number of factors, including but not limited to the volume of wastewater treated and changes in the operating costs of our wastewater treatment services. A number of these factors are beyond our control, and hence, we cannot assure you that we will be able to sustain our historical gross profit margins or profit margins in the future. Please refer to the section headed “Business — Competitive Strengths — Guaranteed tariffs and town planning protect us from fluctuations in the supply of wastewater provided to our wastewater treatment facilities” in this prospectus for details.

In addition, our operational results or gross profits may not be directly proportional to the increased amounts of wastewater treated by our facilities as the wastewater treatment fees which we receive under our BOT agreements typically include a tariff for the actual volume of wastewater treated and a discount of the tariff for the shortfall between the agreed maximum capacity of the facilities and the actual volume of wastewater treated, therefore the additional operating costs incurred for treating such increased amounts may partially offset or even exceed the additional revenue gained from treating the increased volume of wastewater. During the Track Record Period, the revenue generated by the shortfall volume comprised a significant portion of our revenue. Our Directors estimate that the revenue generated by the shortfall volume for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2014 for (i) the Haian Hengfa Facility was nil, nil, nil and approximately RMB1.0 million, respectively, (ii) the Rugao Hengfa Facility was approximately RMB13.7 million, RMB11.4 million, RMB10.3 million and RMB4.3 million, respectively, and (iii) the Rugao Honghao Facility was approximately nil, nil (as our Group had not acquired the Rugao Honghao Facility in 2012), approximately RMB10.1 million (calculated since the completion of the acquisition of the Rugao Honghao Facility on 15 February 2013) and RMB4.7 million, respectively. Please refer to the section headed “Financial Information — Major Factors Affecting our Operational Results — Changes in the Volume of Wastewater Treated and our Tariff Arrangement” in this prospectus for details. As certain of the operating costs, such as electricity and raw material costs, will not be incurred for the revenue generated by the shortfall volume, an increase in the utilisation rate of our wastewater treatment facilities in the future is expected to increase the operating costs, if such additional operating costs incurred for treating such increased amounts exceed the additional revenue gained from treating the increased volume of wastewater, the gross profit and gross profit margin for such facility may be reduced.

RISK FACTORS

We plan to upgrade the Haian Hengfa Facility and Rugao Hengfa Facility in 2014 and recognise revenue from the construction of our wastewater treatment facilities under the terms of our BOT agreements, which may materially and adversely affect our Group's gross profit margin

In order to meet the higher discharge and operation standards required by the local government of Haian County and Rugao City as set out in their respective notices issued in 2013, (i) we started upgrading the Haian Hengfa Facility in March 2014 and expect to complete the upgrade by September 2014 with the capital expenditure estimated to be approximately HK\$10.2 million, and (ii) we expect to commence upgrading the Rugao Hengfa Facility in September 2014 and expect to complete the upgrade by December 2014 with the capital expenditure estimated to be approximately HK\$48.3 million. As a result of the aforesaid planned upgrade works, we expect to recognise revenue from the provision of construction services for our BOT projects in 2014. Under our BOT project model accounting, revenue from the construction of our wastewater treatment facilities under the terms of our BOT agreements is estimated on a cost-plus basis with reference to prevailing rates of gross margins of market comparables at the time of construction. Please refer to the section headed “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition” in this prospectus for details. The gross profit margin from the construction revenue recognised as aforesaid is expected to be lower than the gross profit margin of our wastewater treatment operations. As such, our overall gross and net profit margin for the year ending 31 December 2014 is expected to be materially and adversely affected by the recognition of revenue from the provision of construction services.

We may not be able to obtain an adequate and timely supply of electricity at reasonable prices or at all

Operation of our wastewater treatment facilities depends, amongst other things, on the adequate and continuous supply of electricity. Our operations require a significant and stable supply of electricity, the use of which will further increase substantially as we expand our capacity. We currently obtain our electricity from the public electricity network. Many cities and provinces in China have suffered serious power shortages in recent years. Many of the regional grids lack sufficient power-generating capacity to fully satisfy the increased demand for electricity driven by continued economic growth and unfavourable weather conditions. We cannot assure you that we will always have access to sufficient, continuous and stable supplies of electricity in the future to accommodate our requirements and planned business growth and that such power shortages will not cause disruptions and delays in our operation schedules possibly resulting in us being unable to comply with our obligations under our BOT agreements. If this were to occur, our business, financial condition and operational results could be materially and adversely affected.

For the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, our cost of electricity represented approximately 35.1%, 39.2%, 33.0% and 20.5% of our total cost of sales, respectively. Electricity prices in the PRC are generally regulated by the PRC government. The average purchase price per kilowatt hour for electricity sourced from the local public utility suppliers was approximately HK\$0.9, HK\$0.9, HK\$1.0 and HK\$1.0 for the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, respectively. We cannot assure you that the local public utility suppliers will continue to supply electricity at reasonable prices. As adjustment to

RISK FACTORS

our tariff are subject to consent from our customers pursuant to the terms of the BOT agreements, we may not be able to pass on any increase in electricity price to our customers who may not consent to any tariff adjustment. If this were to occur, our business, financial condition and operational results could be materially and adversely affected.

We are dependent on third parties for the supply of raw materials and services for repair and maintenance

Our business is significantly affected by the availability, cost and quality of the raw materials, which include chemicals and machine parts comprising the equipment we need in order to construct, develop, operate and maintain our wastewater treatment facilities. We require the continued support of certain equipment manufacturers to supply necessary services and parts to maintain our projects at affordable cost. The prices and supply of raw materials depend on factors beyond our control, including but not limited to economic conditions, competition, availability of quality suppliers, production levels and transportation costs in China. If we are unable to procure the required chemicals services or parts in a timely manner, or if the costs of these services or parts exceed our budgeted cost, there may be a material and adverse effect on our business, financial condition and operational results. As any adjustment to our tariff are subject to consent from our customers pursuant to the terms of the BOT agreements, we may not be able to pass on any increase in our raw materials and repair and maintenance costs to our customers who may not consent to any tariff adjustment. If this were to occur, our business, financial condition, operational results could be materially and adversely affected. Please refer to the section headed “Business — Suppliers” in this prospectus for details.

We generally source our suppliers and service providers locally. In the event that our suppliers and service providers cease to be able to supply us or that they relocate to a farther region, our operating costs may escalate or we may need to find new reliable local suppliers and service providers and we cannot assure you that we will be able to locate a replacement in a timely manner or at all. Failure to find a suitable replacement could jeopardise or cause a delay in the delivery of our raw materials or delay in repair and maintenance of our equipment, which could materially and adversely affect our business, financial condition and operational results. For the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, our top five suppliers (excluding public utility and electricity providers) amounted to approximately HK\$1.7 million, HK\$1.3 million, HK\$3.5 million and HK\$7.6 million and in aggregate accounted for approximately 16.3%, 12.3%, 22.0% and 57.1% of our total cost of sales for the year, respectively. If any of our key suppliers for a particular project is unable to continue providing the raw materials we need, or fail to supply the necessary services and components to maintain our equipment, at prices and on terms and conditions we consider acceptable, we may need to obtain these items from suppliers in other cities or provinces and our business, financial condition and operational results could be materially and adversely affected as a result.

RISK FACTORS

Our business may be materially and adversely affected if there is any significant downtime of our wastewater treatment facilities

Normal wear and tear of our wastewater treatment facilities is a natural consequence of operations in the wastewater treatment services industry. Normal wear and tear results from exposure to the elements and deterioration of equipment, whether from use or otherwise. As a result, our wastewater treatment facilities may require periodic downtime for repairs and maintenance. However, if the time and cost required for such repairs and maintenance exceed our expectations, our turnover may be less than what is currently projected. In addition, if any extraordinary or extensive repairs to our wastewater treatment facilities or equipment are required, due to any uncontrolled catastrophic event or otherwise, our wastewater treatment facilities could require significant downtime during which such facilities would not be available to treat wastewater for discharge. Any significant downtime of our wastewater treatment facilities may also have far-reaching consequences to the surrounding industries and residents. In the event of any such extraordinary or extensive repairs and maintenance, our operations could experience major disruptions. The inability to use our wastewater treatment facilities could materially and adversely affect our business, financial condition and operational results.

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

We may be subject to liabilities against which we are not insured adequately or at all or liabilities against which we cannot insure. We maintain property insurance covering our wastewater treatment facilities. If significant property damage occurs to our wastewater treatment facilities due to natural disasters, epidemics, acts of war or terrorism or other events beyond our control, our insurance policies may not adequately cover the losses that we incur and our business may be materially and adversely impacted, potentially leading to a loss of assets, lawsuits, employee compensation obligations or other forms of economic loss. In the event that we or our contractors are unable to obtain timely repair or replacement of such damage or loss, major disruptions to our business may arise which would have a significant adverse effect on our financial condition and operational results. We may also face the risk of loss or damage to our properties, machinery and inventories due to the occurrence of any of the above events. Furthermore, we are subject to hazards and risks that are normally associated with our operations, which are subject to interruption or damage by fire, power failure and power shortages, hardware and software failure, floods, natural disasters and other events beyond our control. We do not maintain property insurance for the raw materials used in our operations.

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

RISK FACTORS

Competition in the wastewater treatment services industry may increase and our inability to maintain our competitiveness could materially and adversely affect our financial performance

The wastewater treatment services industry in China is highly fragmented, with a large number of service providers throughout the country. We compete primarily with wastewater treatment companies in China and new entrants to the market, some of which may have better access to financial resources, lower cost structures, higher levels of integration, better operating efficiency, more advanced technologies or longer operating histories. If we are unable to improve our wastewater treatment services quality and pricing competitiveness, maintain our operating efficiency and control our costs, we may not be able to compete effectively in securing any future BOT agreements and our sustainability and growth opportunities may be limited, which will materially and adversely affect our revenue and profitability. Please refer to the sections headed “Industry Overview” and “Business — Market and Competition” in this prospectus for details.

Inaccurate estimates in applying percentage-of-completion accounting for our projects may have a significant impact on our period to period operational results

We use the percentage-of-completion method to recognise and account for the revenue derived from our construction contracts in progress for our BOT projects. We engaged CBRE Limited, an Independent Third-Party valuer, to value the total revenue relating to the construction services for our BOT projects. Going forward, we need to estimate the amount of construction costs based on our assessment of, among other things, the market conditions and the costs of equipment and raw materials and other operating costs. The timing of our recognition of construction revenue may differ materially from the timing of our actual receipt of contract payments. The timing of our recognition of construction revenue and the amount recognised are affected by our ability to reliably measure the percentage-of-completion, total estimated costs and actual costs incurred. Inaccuracies or flaws in our measurements for any given project or in our estimation methodology as a whole could have a material and adverse effect on the timing of our recognition of construction revenue and the amount of construction revenue recognised. Where our expectation related to turnover recognition is different from our previous estimation, the differences will be charged to our profit or loss account in the period when such estimate has been changed. In addition, as many of these contracts are completed over a period of several years, the timing of our recognition of the related turnover may materially and adversely affect our period-to-period operational results.

We typically only receive cash payment of wastewater treatment fees in connection with the revenue recognised from the construction of our BOT projects during the operational phase of these BOT projects and we may not have the cash inflow matching the revenue recognised during the construction phase

For each of our wastewater treatment facilities, we are entitled to receive regular, usually monthly, payments from our customers once the facility is in operation. Subject to a guaranteed payment for any shortfall between the agreed maximum capacity of the facilities and the actual volume of wastewater being treated, such payments are based on a contractually agreed tariff and the actual volume of wastewater treated. We usually do not receive payment from our customers during the construction phase of these projects. However, in accordance with HKFRS, we recognise revenue from

RISK FACTORS

these projects during both the construction phase and the operational phase. We record revenue during the construction phase on the percentage-of-completion basis, based on the cost of construction incurred. The revenue recognised from the construction phase of a BOT project is also recognised as a service concession receivable to be offset against the allocated amount after receipt of the cash wastewater treatment fees and other payments received related to the relevant projects. Service concession receivables for BOT projects are settled during the concession periods of the relevant BOT projects, which, as extended by the respective supplemental BOT agreement, can be up to 34 years. There is no assurance that the service concession receivables will be fully settled before the expiry of the relevant concession period, which may cause an impairment of our financial assets and materially and adversely affect our operational results. As at 31 May 2014, the balance of receivables under service concession arrangements we had recorded was HK\$308.4 million.

As we continue to undertake more BOT projects in the future, our cash flow requirements and funding needs will change significantly. We will rely increasingly on our internally generated funds and external borrowings for the construction of these projects. We expect more of our cash reserves will be used as we undertake more construction work for our BOT projects. Generally, the matching cash inflow for our construction revenue will only be received in the form of wastewater treatment service fees during the operational stage of the relevant BOT projects and not during the construction phase. As we receive payments only after the constructed facilities become commercially operational, our cash flow will not match the revenue recognised during the construction phase. As a result, an increase in our revenue and profit for a financial period may not be matched by a corresponding increase in our cash flow generated from operating activities. As a result, our liquidity may be drained, which may materially and adversely affect our business, financial condition and operational results.

The preferential tax treatment we currently enjoy may be unfavourably changed or discontinued

During the Track Record Period, pursuant to the Ministry of Finance, the State Administration of Taxation on Comprehensive Utilisation of Resources and Other Products Value-Added Tax Policy Notice (《財政部、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知》), our operating subsidiaries in the PRC were exempted from paying PRC value-added tax on the provision of their respective wastewater treatment services. Please refer to the section headed “Regulatory Overview — Taxation” in this prospectus for details. Further, Haian Hengfa obtained preferential income tax treatment on 21 February 2014 whereby its income tax is taxed at the taxable profit which excluded 10% of its revenue going forward. We cannot assure you that such exemption or preferential treatment that we currently enjoy will not be unfavourably changed or discontinued. The termination or expiry of the preferential tax treatment during the relevant periods or the imposition of additional taxes on us or our subsidiaries in China may significantly increase our tax expense and materially reduce our net income.

RISK RELATING TO THE INDUSTRY

Environmental risks may materially and adversely affect our business, financial condition and operational results

We are exposed to environmental risks due to the nature of our business operations. Water supplies may be exposed to pollution, including pollution from the development of naturally occurring

RISK FACTORS

compounds, or contamination resulting from man-made sources. Furthermore, the types and amounts of pollutants in the wastewater we treat may increase unexpectedly due to a number of factors, including but not limited to the occurrence of natural disasters or industrial accidents, or increases in levels of manufacturing activities or consumption. In the event where such pollution or contamination occurs in respect of the water supplies or types or amounts of pollutants in the wastewater increase significantly, we cannot assure you that we will be able to adequately and efficiently treat the wastewater or remove pollutants from wastewater. In such event, we could also be held liable for human exposure to dangerous substances in water supplies or other environmental damage. Any of the foregoing could subject us to liability, which could materially and adversely affect our business, financial condition and operational results. These environmental risks will materially and adversely affect our profit and our ability to pay dividends to our Shareholders.

RISKS RELATING TO BUSINESS OPERATIONS IN CHINA

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

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

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

RISK FACTORS

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

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

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

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

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

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

Substantially all of our business is conducted in China and is governed by PRC laws and regulations. Group companies that are located in China are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, PRC written statutes are often

RISK FACTORS

principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic and environmental matters such as foreign investment, corporate organisation and governance, commercial transactions, taxation, trade and wastewater treatment. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the government agency or how or by whom an application or case is presented to such agency, we may receive less favourable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

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

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics, acts of war or terrorism and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. Some regions in China, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as SARS or H5N1 avian flu. Since March 2013, the PRC government has reported the detection of human infection with a novel influenza A (H7N9) virus, and there is no assurance that such an epidemic will not spread further. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and operational result.

Depreciation in the value of Renminbi may materially and adversely affect the value of dividends and other distributions by our PRC subsidiaries

The value of Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and China's governmental policies, as well as supply and demand in the local and international markets. Since 1999, the conversion of Renminbi into foreign currencies, including the Hong Kong dollar, was based on exchange rates set and published daily by the PBOC in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The Renminbi exchange rate could fluctuate widely against the Hong Kong dollar or any other foreign currency in the future. Any depreciation of Renminbi will materially and adversely affect the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms.

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

The EIT Law and its implementation rules, which provided for the levying of withholding tax on PRC-sourced income, are relatively new and ambiguities exist with respect to the interpretation of the

RISK FACTORS

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

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

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

It may be difficult to enforce against us or them in mainland China any judgments obtained from non-PRC courts

We are incorporated in the Cayman Islands. The vast majority of our assets, our subsidiaries and their assets are located in China. As a result, it may be difficult for investors to effect service of process against our assets. Moreover, a judgment of a court of another jurisdiction may only be reciprocally recognised or enforced if the jurisdiction has a treaty with China or if there are reciprocal relationships between China and such jurisdiction, subject to the satisfaction of other requirements. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other developed countries. Although Hong Kong and China entered into an agreement on reciprocal recognition of judgments, enforcement of judgments is predicated on a written choice of court agreement that gives a PRC or Hong Kong court exclusive jurisdiction. As a result, it may be difficult for investors to seek recognition and enforcement in China of foreign judgments or judgment from Hong Kong courts without a written choice of court agreement that gives a PRC or Hong Kong court exclusive jurisdiction.

RISK FACTORS

RISKS RELATING TO THE SHARE OFFER

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

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

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

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

You may experience immediate dilution and may experience further dilution if we issue additional Shares in the future

The Offer Price is higher than the net tangible asset value per Share immediately prior to the Share Offer. Therefore, you and other purchasers of the Shares in the Share Offer will experience an immediate dilution in pro forma net tangible asset value to approximately HK\$0.454 per Share, based on the Offer Price of HK\$0.6 and HK\$0.406 per Share based on the Offer Price of HK\$0.4.

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

RISK FACTORS

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

Future offerings or sales of the Shares by us or our Controlling Shareholders, or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of the Shares to decline. For more details regarding restrictions that may apply to future sales of the Shares by our Controlling Shareholders, please refer to the section headed “Underwriting” in this prospectus. After these restrictions lapse, the market price of the Shares may decline as a result of future sales of substantial amounts of Shares or other securities relating to the Shares in the public market, the issuance of new Shares or other securities relating to the Shares (including the issuance of new Shares pursuant to the exercise of share options which may be granted by us) or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, if we issue additional Shares or share options in the future, you may experience further dilution.

Impact of granting options under the Share Option Scheme

We have adopted the Share Option Scheme pursuant to which we will in the future grant our Directors and employees options to subscribe for Shares. No options had been granted pursuant to the Share Option Scheme as at the Latest Practicable Date.

The fair value of the options at the date on which they were granted with reference to the valuer’s valuation will be charged as share-based compensation, which may materially and adversely affect our operational results. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of our Shareholders and the net asset value per Share.

For details regarding the Share Option Scheme, please refer to the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix IV to this prospectus.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy successfully

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities and debt securities or obtain debt financing. The sale of additional equity securities or convertible debt securities could result in additional dilution to our Shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations.

We may be unable to pay any dividend on the Shares

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

RISK FACTORS

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

Our ability to declare dividends in relation to our Shares will also depend on our future financial performance, which, in turn, depends on our success in implementing our business strategies and expansion plans and on financial, competitive, regulatory, and other factors, general economic conditions, demand for and prices of our services, costs of supplies and other factors specific to our industry, many of which are beyond our control. Other factors such as cash flow conditions, restrictions on distributions contained in our subsidiaries’ articles of association, restrictions contained in their debt instruments, withholding tax and other arrangements will also affect our subsidiaries’ ability to make distributions to us. These restrictions could reduce the amount of distributions that we receive from our subsidiaries, which in turn would restrict our ability to fund group operations and pay dividends on the Shares. In addition, restrictive covenants in our credit facilities or other agreements that we may enter into in the future may also restrict the ability of our operating subsidiaries to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders. Accordingly, despite our declaration of dividends on 5 September 2014, which is expected to be paid prior to Listing, future dividends may not be declared or paid.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands laws, which may provide less protection to minority Shareholders than the laws of Hong Kong or certain other jurisdictions

Our corporate affairs are governed by our Memorandum of Association and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of Hong Kong or certain other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 724 of the Companies Ordinance which provides remedies for shareholders who have been unfairly prejudiced by the conduct of the company’s affairs. Please refer to Appendix III to this prospectus for details.

RISK FACTORS

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

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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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 Listing Rules for the purpose of giving information with regard to our Company. 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.

THE PUBLIC OFFER AND THIS PROSPECTUS

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer.

The Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Share Offer or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by our Company, the Sponsor, the Sole Global Coordinator, the Underwriters, any of their respective directors, officers, agents, employees, advisers or representatives or any other party involved in the Share Offer.

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 at any date subsequent to the date of this prospectus.

UNDERWRITING

The Listing is sponsored by the Sponsor and the Public Offer is managed by the Sole Global Coordinator. Subject to the terms of the Public Offer Underwriting Agreement (including the determination of the Offer Price by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) on or about 19 September 2014, being the expected Price Determination Date, or such later date as may be agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters)), the Public Offer Shares are fully underwritten by the Public Offer Underwriters. For more information about the Public Offer Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DETERMINATION OF OFFER PRICE

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about 19 September 2014 or such later date as may be agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) and in any event no later than 24 September 2014. If, for whatever reason, our Company and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) are not able to agree on the Offer Price, the Public Offer will not proceed and will lapse.

PRC AUTHORITIES' APPROVAL

The Share Offer and the Listing are not subject to any approvals by any PRC authorities.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Offer Shares or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, 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 authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering 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 authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Public Offer Shares have not been publicly offered or sold directly or indirectly, in the PRC or the U.S. Each person acquiring the Public Offer Shares will be required to, or be deemed by his/her acquisition of Public Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Public Offer Shares described in this prospectus and the related Application Forms.

Prospective applicants for the Public Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Public Offer Shares should inform themselves as to the relevant legal requirements of applying for the Public Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and as otherwise described in this prospectus on the Stock Exchange (including any Shares to be issued pursuant to any options that may be granted under the Share Option Scheme).

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

No part of our Shares or loan capital is listed, traded or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

PROCEDURES FOR APPLICATION FOR THE OFFER SHARES

The procedures for applying for the Offer Shares are set out in the section headed “How to apply for the Public Offer Shares” in this prospectus and in the relevant Application Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of the listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our 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 our Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day (as defined in the Listing Rules) 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 our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in our Shares (or exercising rights attached to them). None of us, the Sponsor, the Sole Global Coordinator, the Underwriters, any of their respective directors or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Maples Fund Services (Cayman) Limited in the Cayman Islands, and our Hong Kong register of members will be maintained by our Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited, in Hong Kong. Dealings in our Shares registered on our Hong Kong branch share register will be subject to Hong Kong stamp duty.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations, natural persons or other entities (including certain of our subsidiaries) mentioned in this prospectus and their English translations, the Chinese names shall prevail.

ROUNDING

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
Executive Directors		
Chau On Ta Yuen (Chairman)	Flat C, 23rd Floor, Tower 21 Laguna Verde, Hung Hom Kowloon Hong Kong	Chinese
Chan Kwan (Chief Executive Officer)	Flat C, 5th Floor, Ewan Court 54-56 Kennedy Road Wanchai Hong Kong	Chinese
Non-Executive Directors		
Chan Pak Lam Brian	6th Floor, Block A Grenville House 1-3 Magazine Gap Road Hong Kong	Chinese
Chau Chi Yan Benny	Flat G, 4th Floor, Block 6 Willow Mansions 120 Baker Street Hung Hom, Kowloon Hong Kong	Chinese
Independent Non-Executive Directors		
Ng Chung Yan Linda	Flat G, 23rd Floor, Tower 1 75 Tsing King Road Tivoli Garden, Tsing Yi New Territories Hong Kong	Chinese
Ng Man Kung	Flat D, 5th Floor, Ewan Court 54-56 Kennedy Road Wanchai Hong Kong	Chinese
Sze Yeuk Lung Benedict	30th Floor, Block E 38 Cloud View Road Hong Kong	Chinese

Please refer to the section headed “Directors and Senior Management” in this prospectus for further information.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sponsor

Quam Capital Limited
18th-19th Floors, China Building
29 Queen's Road Central
Hong Kong

Joint Bookrunners and Joint Lead Managers

Quam Securities Company Limited
18th-19th Floors, China Building
29 Queen's Road Central
Hong Kong

Convoy Investment Services Limited
24C, @Convoy
169 Electric Road
North Point
Hong Kong

Legal Advisers to our Company

As to Hong Kong law
Michael Tam & Co. in association with
Berwin Leighton Paisner (HK) LLP
11th Floor, 50 Connaught Road Central
Central
Hong Kong

As to PRC law
King & Wood Mallesons
17th Floor, One ICC
Shanghai International Commerce Centre
999 Middle Huai Hai Road
Xuhui District
Shanghai 200031
China

As to Cayman Islands law
Maples and Calder
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

Legal Advisers to the Sponsor and the Underwriters

As to Hong Kong law
Pang & Co. in association with Loeb & Loeb LLP
21st Floor, CCB Tower
3 Connaught Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

	<i>As to PRC law</i> Zhong Lun Law Firm 36th-37th Floors, SK Tower 6A Jianguomenwai Avenue Beijing 100022 China
Reporting Accountants	Ernst & Young <i>Certified Public Accountants</i> 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Industry Consultant	CBRE Limited 4th Floor, Three Exchange Square 8 Connaught Place Central Hong Kong
Internal Control Consultant	BDO Financial Services Limited 25th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Receiving Bank	Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Kowloon Hong Kong
Compliance Adviser	Quam Capital Limited 18th-19th Floors, China Building 29 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered Office	P.O. Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands
Headquarters	Rugao Hengfa Municipal and Industrial Wastewater Treatment Facility North of Huimin Road Rugao Economic and Technological Development Zone Jiangsu Province PRC
Principal Place of Business in Hong Kong	Units 1-3, 11th Floor, Westlands Centre 20 Westlands Road Hong Kong
Company's Website	www.ellhk.com (information contained in this website does not form part of this prospectus)
Company Secretary	Kwok Siu Man FCS 31st Floor, 148 Electric Road North Point Hong Kong
Authorised Representatives	Chan Kwan Flat C, 5th Floor, Ewan Court 54-56 Kennedy Road Wanchai Hong Kong Kwok Siu Man FCS 31st Floor, 148 Electric Road North Point Hong Kong
Audit Committee	Ng Chung Yan Linda (<i>Chairman</i>) Chau Chi Yan Benny Ng Man Kung Sze Yeuk Lung Benedict
Remuneration Committee	Ng Man Kung (<i>Chairman</i>) Chan Pak Lam Brian Ng Chung Yan Linda Sze Yeuk Lung Benedict

CORPORATE INFORMATION

Nomination Committee	Chau On Ta Yuen (<i>Chairman</i>) Chan Kwan Ng Chung Yan Linda Ng Man Kung Sze Yeuk Lung Benedict
Cayman Islands Principal Share Registrar and Transfer Office	Maples Fund Services (Cayman) Limited P.O. Box 1093, Boundary Hall Cricket Square Grand Cayman, KY1-1102 Cayman Islands
Hong Kong Branch Share Registrar	Boardroom Share Registrars (HK) Limited 31st Floor 148 Electric Road North Point Hong Kong
Principal Banks	Chiyu Banking Corporation Limited 78 Des Voeux Road Central Hong Kong The Hongkong and Shanghai Banking Corporation Limited HSBC Building 1 Queen's Road Central Central Hong Kong

INDUSTRY OVERVIEW

Certain information and statistics set out in this section and elsewhere in this prospectus relating to the economy of China and the industry in which we operate are derived from government agencies and industry report prepared by CBRE which is commissioned by us.

We believe that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. No independent verification has been carried out on such information and statistics by us, the Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, agents, employees, advisers or representatives or any other persons or parties involved in the Share Offer, and no representation is given as to the accuracy of such information and statistics. Please refer to the section headed “Risk Factors — Risks Relating to the Share Offer — We cannot guarantee the accuracy of facts, forecasts, other statistics and information derived from various official government publications or obtained from CBRE with respect to China, the PRC economy and the PRC wastewater treatment services industry contained in this prospectus” in this prospectus for details.

CBRE

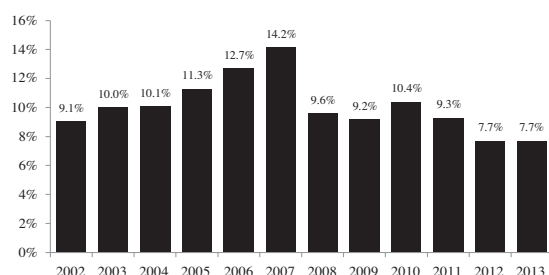
In connection with the Share Offer, we have engaged CBRE, an Independent Third Party, to prepare an industry report that studied the overall wastewater treatment industry in the PRC. CBRE is a company that provides a range of services including but not limited to real estate brokerage, capital markets, global research, consulting, asset management and valuation services. The Valuation & Advisory Services (Greater China) arm of CBRE (“VAS”) engages in various asset valuation, market and due diligence research, merger and acquisition and initial public offering advisory, rating appeal advisory as well as business valuation. VAS has provided advisory services to various players in the wastewater treatment industry. The CBRE Industry Report was prepared based on a top-down approach, starting from the broader macro economy of China, to the different facets of the water sector, and finally to the wastewater treatment industry. CBRE utilised both primary and secondary research, and attempted to cross check each significant finding with multiple sources. Their primary research included site visits, management interviews and consultation with industry experts to verify information from third party sources and desktop studies. Their secondary research included industry reports, internet research, research from brokerage firms, articles written by industry professionals, university publications, and intelligence from third party data providers. Any projections in the CBRE Industry Report were done utilising a mix of both qualitative and quantitative analysis. Whenever applicable, a set of historical data is used as a basis for its projections, and if necessary, adjustments are subsequently made for projection purposes and to ensure data relevancy. The total fee we paid for the CBRE Industry Report was HK\$320,000.

INDUSTRY OVERVIEW

OVERVIEW OF CHINA'S ECONOMY

China is the world's second largest economy in terms of nominal gross domestic product (“GDP”) and currently behind only the United States. The country is widely credited for being the major driver of global economic growth over the past decade and remains as one of the fastest growing economies in the world. Despite the recent financial crisis, China's real GDP growth rate has averaged 8.9% annually since 2009, compared with the low single digits and even economic recessions in other major economies in the world.

Exhibit 1: Historical Real GDP Growth Rates of China



Source: National Bureau of Statistics, International Monetary Fund

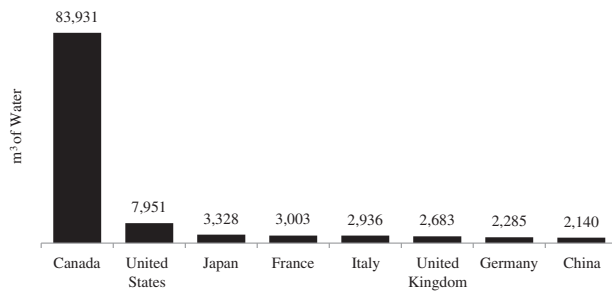
Looking ahead, China's growth is beginning to show signs of moderation, having achieved a growth rate of 7.7% in 2013, the lowest in 14 years and equivalent to that in 2012. However, this exceeded the official GDP growth target set at the National People's Congress of 7.5% in 2013 and is also above the average annual growth target of 7% for 2011 to 2015, as stated in the country's 12th Five-Year Plan in 2011.

WATER RESOURCES IN CHINA

China has an inherent water shortage problem. The country has approximately 20% of the world's population but only 6.5% of the world's total renewable freshwater resources. According to the United Nations, China's water resources stand at 2,140 cubic metres (“m³”) on a per capita basis, which is only one-third of the global average of around 6,200m³ and lags behind all of the G7 countries (namely Canada, United States, Japan, France, Italy, United Kingdom and Germany).

INDUSTRY OVERVIEW

Exhibit 2: Long-Term Average¹ Water Resources Per Capita of G7 Countries and China

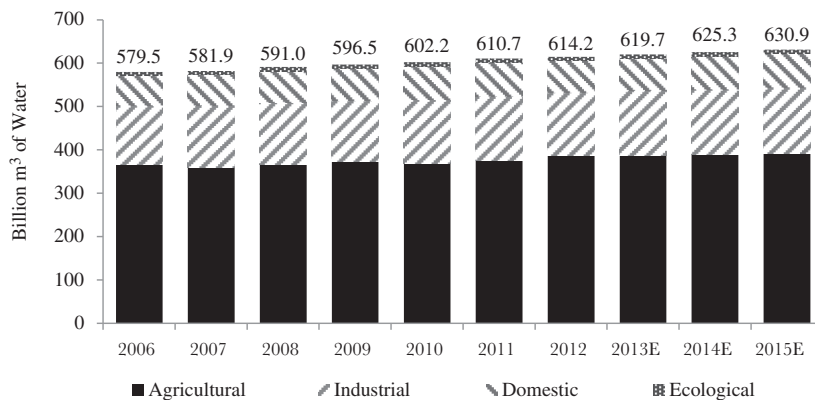


Source: United Nations

WATER CONSUMPTION IN CHINA

As a result of industrialisation and urbanisation, China's water consumption has risen steadily over the years and grown at a 5-year CAGR of approximately 1% to 614.2 billion m³ in 2012. According to the CBRE Industry Report, water consumption in China is projected to reach 630.9 billion m³ by 2015, based on a continued increase in water demand from urbanisation and industrial production. However, the forecasts represent a slight reduction in the growth of annual water consumption as compared to the 5-year CAGR of 1%, attributable to improvements in water conservation and an overall slow down in economic growth. In fact, the nominal amount of water consumed already grew at the slowest pace in five years, having only increased by 3.46 billion m³ in 2012.

Exhibit 3: Historical and Forecast of Water Consumption by Usage



Source: National Bureau of Statistics²; CBRE

¹ Arithmetic average of at least 20 years compiled by the United Nations.

² The National Bureau of Statistics is an agency within the State Council of China charged with the collection and publication of statistics related to the economy, population and society at national and local levels.

INDUSTRY OVERVIEW

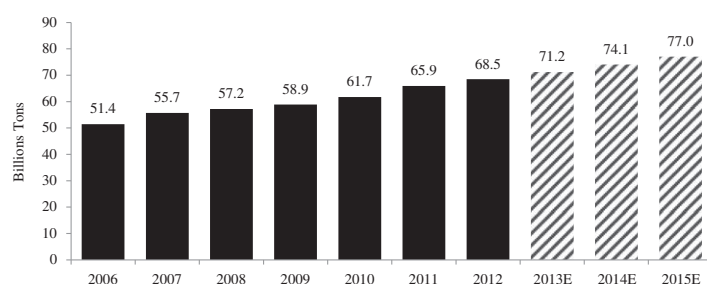
CHINA'S WASTEWATER TREATMENT INDUSTRY

Wastewater is defined as any water that is adversely affected by anthropogenic influence or human activity. This includes, but is not limited to, water that is contaminated through industrial activity (i.e., toxic waste and chemical residues), agricultural activity (i.e., water drainage with fertilisers and pesticides) and municipal activity (i.e., sanitary water and sewage). The more commonly known term, “sewage water”, is a subset of wastewater that is contaminated with faeces or urine.

Wastewater Discharge

Similar to the trend of the growth in water consumption, the volume of wastewater discharged increased over the years. The total volume of wastewater discharged throughout China grew at a CAGR of 4.22% for the five years leading up to 2012. According to the Ministry of Water Resources, 68.5 billion tons of wastewater was discharged in 2012. According to the CBRE Industry Report, the total wastewater discharge is projected to reach 77.0 billion tons by 2015, driven by a continued net increase in water consumption caused primarily by urbanisation as well as China's commitment to an investment-led growth strategy. Announced at the National People's Congress in March 2014, the fixed-asset investment growth target for 2014 is 17.5%, only a slight decline from the 18.0% target of 2013, signalling continued strength in industrial production, construction projects and hence wastewater discharge. However, the CBRE Industry Report expects the growth of wastewater discharge to be impacted by the overall slowdown in water consumption, leading to annual growth slightly below the 5-year CAGR of 4.22% until 2015.

Exhibit 4: Total Historical Wastewater Discharged and Forecasts



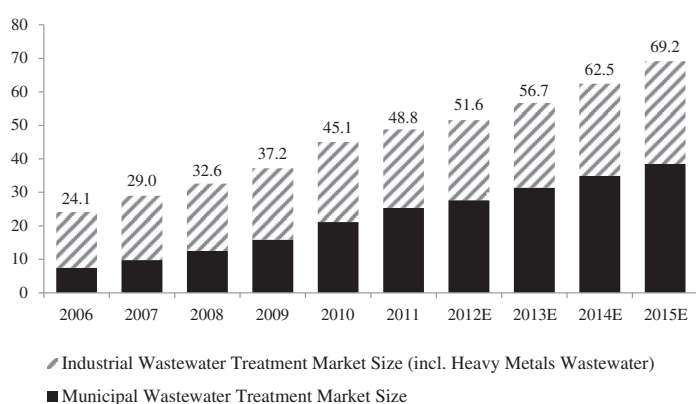
Source: National Bureau of Statistics, CBRE

INDUSTRY OVERVIEW

Market Size and Opportunity

According to the CBRE Industry Report, the total market size of wastewater treatment, including both municipal and industrial wastewater treatment, is estimated to have reached RMB56.7 billion in 2013 and is expected to reach RMB69.2 billion by 2015. The figures represent the total revenue collected by wastewater treatment providers in China, and are calculated by multiplying volume of wastewater treated by the average wastewater treatment tariff. Until 2015, the projections in the CBRE Industry Report indicate a 10-year CAGR of 12.0% for the total market size, 20.5% CAGR for municipal treatment and 6.5% CAGR for industrial wastewater treatment.

Exhibit 5: China's Wastewater Treatment Market Size (RMB Billion)



Source: CBRE³, MEP, H2O China⁴, Tianto Info (Beijing) Consulting⁵

According to the CBRE Industry Report, the growth of municipal wastewater treatment market will outpace that for industrial wastewater treatment market due to the fact that the supply of municipal wastewater treatment still significantly lags demand, and hence, has a much higher capacity for growth. For instance, while China has long established regulations on factories to treat their wastewater properly, many rural regions of China lack the facilities to treat wastewater. According to the 12th Five-Year Plan, while the wastewater treatment rates of large cities and counties have reached over 77% and 60% respectively in 2010, the wastewater treatment rate of small municipal towns was less than 20% and targets a mere 30% treatment rate in 2015.

³ For historical wastewater treatment tariff and forecast, please refer to Exhibit 11. For forecast of volume of wastewater treated, please refer to Exhibits 6 and 7.

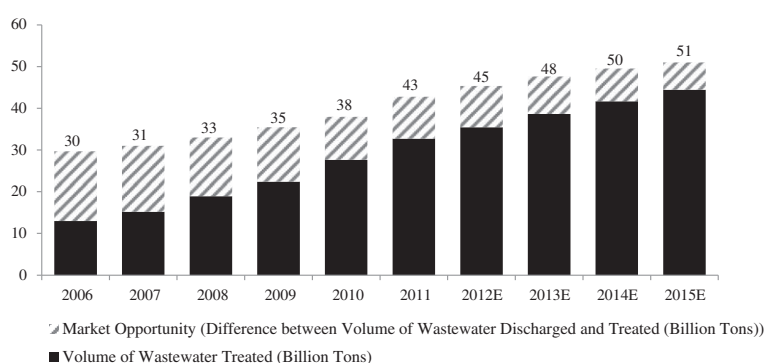
⁴ H2O China (ChinaWaterNet) is a privately operated website dedicated to providing news and data of the water and solid waste sectors in China, and is a strategic partner of the International Water Association.

⁵ Tianto Info (Beijing) Consulting is a consulting firm based in Beijing that engages in industry research, investment consulting and general strategy consulting.

INDUSTRY OVERVIEW

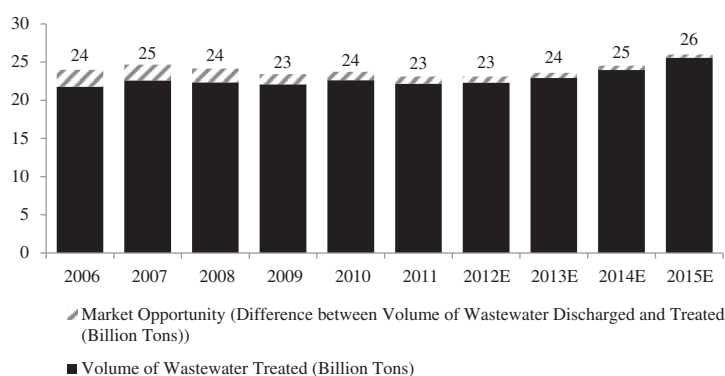
Exhibits 6 and 7 illustrate the overall wastewater discharge level (the striped and solid bars combined) and the volume of municipal and industrial wastewater treated, respectively. The difference between the two (the stripes portion) represents the excess demand for wastewater treatment and as shown, municipal wastewater treatment appears to have a much higher growth potential than industrial wastewater treatment. Throughout the past decade, municipal wastewater has grown steadily driven by population growth and urbanisation. On the other hand, industrial wastewater is more susceptible to economic growth and policies, the growth of specific water-intensive industries and technological improvements (e.g., lower wastewater discharge per unit of production or water reclamation technologies), which can make the overall volume of wastewater discharged and treated vary by year.

Exhibit 6: Volume of Municipal Wastewater Discharged and Treated



Source: CBRE⁶, MEP, Tianto Info (Beijing) Consulting

Exhibit 7: Volume of Industrial Wastewater Discharged and Treated



Source: Ministry of Environmental Protection, CBRE⁷

⁶ Municipal wastewater discharge volume forecasted with declining growth rates ranging from 6% to 3% for 2012 to 2015. Wastewater treatment rates are assumed to increase 3% per annum from 2013 to 2015.

⁷ Industrial wastewater discharge volume forecasted with growth rates ranging from 0% to 6% for 2012 to 2015. Wastewater treatment rates are assumed to increase 0.6% per annum from 2011 to 2015.

INDUSTRY OVERVIEW

BARRIERS TO ENTRY

In general, the wastewater treatment industry has very high barriers to entry. The capital intensive and natural monopoly natures of the business prevent any newcomers without a strong financial backing or a pristine balance sheet to win bids from local governments. The long-term commitment (25 to 30 years) of these projects but with relatively capped growth potential (limited to designed capacity) tends to attract only financially strong and stable players to participate in major projects. Another significant barrier to entry is the certification required for the design, construction and operation of the facilities. Lastly, given the often long term commitment and developmental significance associated with wastewater treatment projects, a strong symbiotic relationship with the local government is essential in understanding and reacting to the changing wastewater treatment demands of the region. A developed relationship and an established track record with a local government reduces the tendency for changing wastewater treatment providers, hence acting as a further barrier to entry.

COMPETITIVE LANDSCAPE

There are three types of players in the PRC wastewater treatment industry: state-owned enterprises (“SOEs”), private companies in the PRC and foreign companies. SOEs dominate the market due to their unique relationships with the government, their massive scale and their first-mover advantage. In recent years however, private companies in the PRC are gaining market share as privatisation of projects through BOT and BOO arrangements gained popularity, which is in-line with China’s pledge of boosting competition in state-dominated industries. There are only a couple of foreign companies in the wastewater treatment industry in China.

Overall, the wastewater treatment industry in China is very fragmented. Whilst there are over 3,600 municipal wastewater treatment plants throughout the country by the end of 2013, according to the CBRE Industry Report, it was estimated that no single company or operator owns more than 5% market share in terms of revenue. The CBRE Industry Report projected that, in the foreseeable future, (i) PRC private companies would experience the fastest growth in the industry, as these companies are relatively more efficient and have garnered the interest of many domestic and foreign investors, which provide such companies with stable financing, and (ii) given the fragmented nature of the market, the industry is poised for consolidation as rising competitive pressures would encourage more mergers and acquisitions to capture operational and cost synergies.

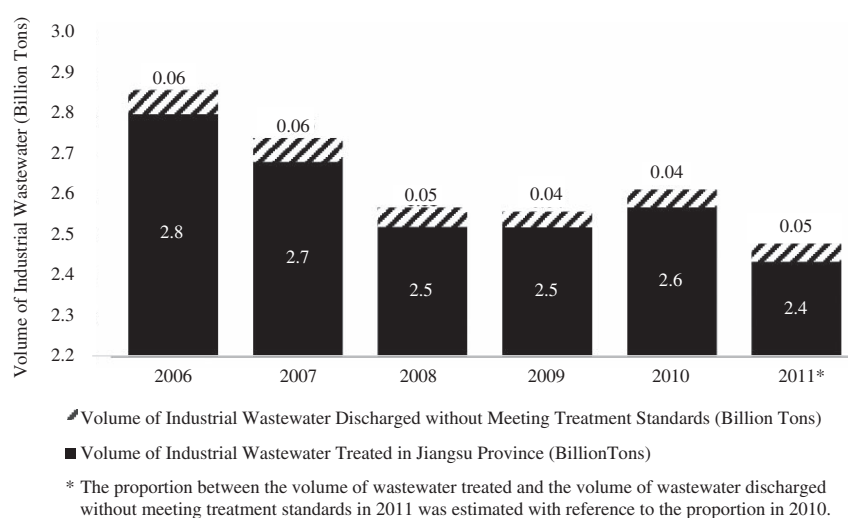
Competitive Landscape in Jiangsu Province

In 2013, there were around 473 municipal wastewater treatment facilities in the Jiangsu Province, up from 440 facilities in 2012. The total designed treatment capacity was 13.3 million m³ per day in 2013, compared with 12.1 million m³ in 2012. The actual volume of wastewater treated at these facilities in 2013 was 10.2 million m³ per day, implying an overall utilisation rate of 77%.

INDUSTRY OVERVIEW

Despite the increase in the municipal wastewater treatment capacity in Jiangsu Province in 2013, the total treatment capacity in Nantong City declined by 20,000 m³ to 1.1 million m³ per day in 2013. In 2013, there were a total of 58 operating municipal wastewater treatment facilities in Nantong City, 11 of which had a daily treatment capacity of 40,000 m³ or more, including the Haian Hengfa Facility and the Rugao Hengfa Facility. The volume of industrial wastewater treated in Jiangsu Province declined gradually from 2.8 billion tons to 2.4 billion tons from 2006 to 2011⁸. We believe there are many reasons for the decline, but the main driver is likely an increased use of water reclamation. As shown in Exhibit 9, despite the decrease in the volume of wastewater discharged, the GDP of secondary and tertiary industries have continued to grow at a rapid pace.

Exhibit 8: Volume of Industrial Wastewater Discharged and Treated in Jiangsu Province



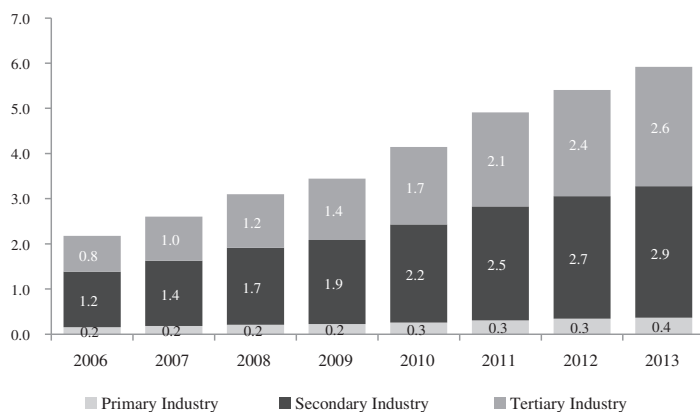
Source: National Bureau of Statistics, Jiangsu Statistical Yearbook, CEIC⁹

⁸ As of the Latest Practicable Date, the relevant data for wastewater discharged and treated in 2011 is the latest available information.

⁹ CEIC is a privately operated website dedicated to providing economic data insights into many different countries around the world, and is majorly owned by Euromoney Institutional Investor PLC.

INDUSTRY OVERVIEW

Exhibit 9: GDP Breakdown of Jiangsu Province (in Trillion RMB)



Source: National Bureau of Statistics, CEIC

GROWTH DRIVERS

Shortage of Water Resources

China's severe scarcity of water will continue to spearhead the entire water industry's growth. The country has approximately 20% of the world's population but only 6.5% of the world's freshwater resources. The average person in Northern China has less than 20% of the international definition of water stress, which is 1,000 m³ of usable water per annum. The country has also lost more than half of its rivers in the last several decades due to exploitation from industrialisation and now has only about 23,000 remaining.

Regardless of whether the South to North water diversion project is effective in improving water resources up north, the current environment spells new opportunities for all water infrastructures, including wastewater treatment facilities. Companies will also race to find new ways of generating usable water, such as re-using treated wastewater directly for industrial applications.

Urgency to Solve the Water Pollution Problem

China is one of the most heavily polluted countries in the world, with less than 1% of the country's 500 largest cities meeting the World Health Organisation's¹⁰ air quality standards¹¹. In 2008, of the seven water systems in China (namely Yangtze River, Yellow River, Pearl River, Songhua River, Huai River, Hai River and Liao River), over 40% of the water was not potable. Even groundwater is found to be unsafe, as a study by the Ministry of Water Resources found that over 90% of Chinese cities' groundwater was polluted to some degree. The World Bank has estimated that the total cost of air and water pollution (health and non-health impacts) is approximately 5.8% of GDP.

¹⁰ The World Health Organisation is a specialised agency of the United Nations focused on international public health issues.

¹¹ "Toward an Environmentally Sustainable Future", Asian Development Bank, 2012.

INDUSTRY OVERVIEW

As a result of such drastic pollution problems, the PRC government faces increasing pressure from citizens and environmental groups to step up the environmental efforts. Wastewater treatment companies will likely continue to benefit from increased investments from the government as well as interest from external investors.

Accelerating Urbanisation

Since 2010, China had more people living in urban areas than in rural areas, a direct result of rapid urbanisation. By the end of 2012, China had 52.6% of its total population living in urban areas, rising from 26% in 1990. According to projections by the United Nations, the urbanisation rate will rise to 65.4% by 2025 and 77.3% by 2050.

In general, water consumption per capita in urban areas is significantly higher than in rural areas. United Nations Educational Scientific and Cultural Organisation (“UNESCO”)¹² estimated that people in developed countries consume on average 10 times more water daily than those in developing countries. The average person in developed countries consumes 500 to 800 litres of water per day, versus 50 to 60 litres per day in developing countries. As new urban dwellers in China begin to adopt a modern lifestyle and utilise technologies such as a conventional toilet flush, shower or bathtubs, water usage (and hence the volume of wastewater) will see a rapid jump.

Continued Industrialisation

China’s economy depends mainly on industrial activities, which contributed 45% to 48% of GDP over the past two decades. Despite the relatively stable contribution to GDP, the industrial structure has transformed from being a light industry-based economy to a mixed development of light and heavy industry-based economy. The economy has also switched from having mainly labour-intensive industries to capital-intensive (both labour and high technology) industries. Further, some of the fastest growing industries in China are water-intensive in nature, such as basic materials and construction, metal and mining, as well as paper and forest products.

For example, the pulp and paper industry in China generally accounts for 10% to 12% of the total wastewater discharge. A pulp and paper mill on average uses 75 m³ to 225 m³ of freshwater per ton of paper manufactured. In 2011, the industry accounted for up to 23% of the total COD discharge in China, the highest of any single industry. Hence, the opportunities for industrial wastewater treatment facilities within this industry alone are enormous. In fact, the national discharge standard for pulp and paper were revised in 2008, which has accelerated investments in wastewater treatment technologies and facilities.

¹² UNESCO is a specialised agency of the United Nations and its purpose is to contribute to peace and security by promoting international collaboration through education, science and culture.

INDUSTRY OVERVIEW

Policy Support and Favourable Regulatory Framework

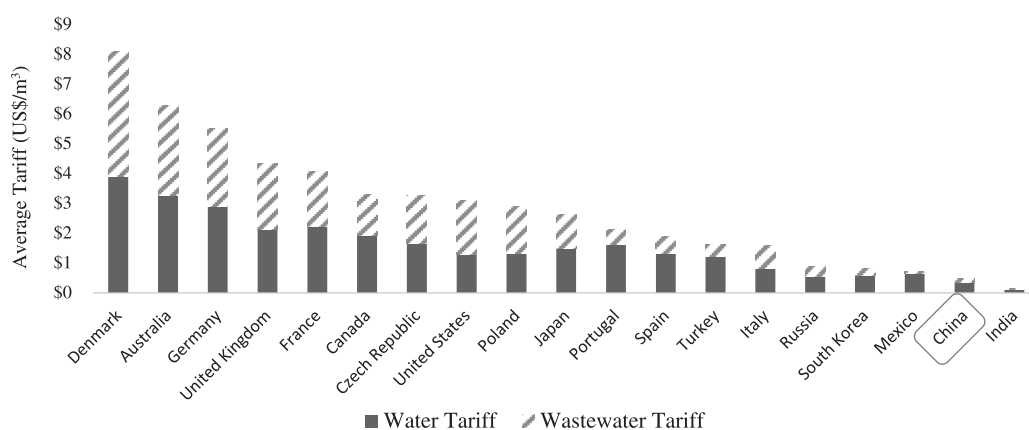
Another key leading driver of growth for the industry was and continues to be a supportive regulatory framework. The PRC government has poured an increasing amount of capital into the wastewater treatment industry over the past two decades, justified by the immense environmental and economic cost of water pollution highlighted above. The official investment budget as noted in the 12th Five-Year Plan to develop wastewater treatment facilities in 2011 to 2015 was RMB430 billion, ahead of the RMB376 billion spent from 2006 to 2010. The government has also set aggressive targets for the industry including improving the wastewater treatment rate from 77.5% in 2010 to 85% in 2015, and increasing the total municipal wastewater treatment capacity from 124.76 million m³ in 2010 to 208.05 million m³ per day in 2015.

The specific amount budgeted for each province is largely proportional to the region's GDP growth and forecast water demand. At the end of 2015, the Guangdong and Jiangsu provinces are expected to treat an additional 3.1 million m³ and 2.9 million m³ of wastewater per day, leading the country both in terms of nominal capacity growth and total nominal treatment capacity.

Water Tariff Adjustments

Compared with global peers, China has very low water tariffs. According to Global Water Intelligence¹³, China's total water tariff averaged US\$0.49 per m³ (comprised of US\$0.36 in water tariff and US\$0.13 in wastewater tariff) in 2013 versus the United States at US\$3.09 per m³ and Japan at US\$2.62 per m³.

Exhibit 10: Comparison of Global Water Tariffs in 2012



Source: Global Water Intelligence

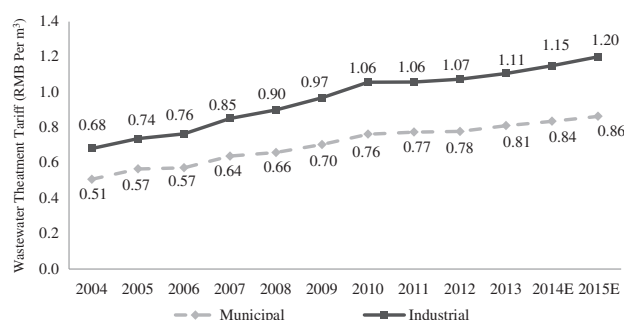
¹³ Global Water Intelligence is a market researcher for the international water market. The company produces reports, databases, web products and publications for professionals in the industry.

INDUSTRY OVERVIEW

Given the low cost of water, water tariffs in China are poised for an upward adjustment, which benefits not only the top-line of wastewater treatment providers, but also encourages water conservation.

Wastewater treatment tariff across the country has already risen by an average of 60% for municipal users and 62% for industrial users since 2004. The average municipal wastewater treatment tariff in 2013 was around RMB0.81 per m³ and the industrial wastewater treatment tariff was around RMB1.11 per m³. However, there are already signs of renewed efforts in accelerating the price adjustments. At the start of 2014, the National Development and Reform Commission (“**NDRC**”)¹⁴ and Ministry of Housing and Urban-Rural Development (“**MOHURD**”)¹⁵ introduced a new pricing mechanism for urban consumers to encourage water conservation and investment. The new reform comprises a three-tier system whereby the heaviest users of water (top 5%) will pay at least three times the base rate of water, the next tier (top 5 to 20%) will pay 1.5 times the base rate, whilst the rest of the users will be unaffected. The CBRE Industry Report considers this is a precursor for further price adjustments in the years ahead and will be a long-term tailwind for wastewater treatment companies.

Exhibit 11: Average Wastewater Treatment Tariff in China



Source: H2O China¹⁶

PRICE TREND OF KEY RAW MATERIALS FOR WASTEWATER TREATMENT

There are a number of inputs that can affect the profitability of a wastewater treatment business. Most notably, the major cost items are utility fees, staff wages and the raw materials chemicals. The first two are relatively predictable and typically does not differ significantly from general inflation in China. The cost of chemicals, however, is driven largely by demand and supply and thus can be a

¹⁴ The NDRC is a macroeconomic management agency under the State Council, which studies and formulates policies for economic and social development, maintains a balance of economic aggregates and guides the overall economic system restructuring.

¹⁵ MOHURD is a ministry of China’s government that provides housing and regulates the state construction activities across the nation.

¹⁶ Historical data represents the average tariffs of 32 regions in China. 2014 and 2015 tariff forecasts are based on consensus forecast of inflation (3.05% and 3.35%, respectively). Industrial wastewater treatment tariffs rise by an additional 1%, based on historical trend and a propensity for a greater adjustment.

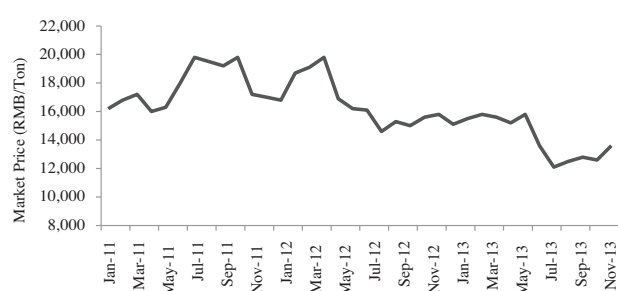
INDUSTRY OVERVIEW

source of margin variability for wastewater treatment businesses. This is especially apparent given that industrial or heavy metal wastewater treatment requires a variety of chemicals to help with the separation of soluble metals, while municipal wastewater treatment facilities use flocculating agents to assist with sedimentation.

Three commonly used chemicals and flocculating agents in wastewater treatment (including sludge treatment) are Polyacrylamide (“PAM”), Aluminium Chloride Hexahydrate (“ACH”) and Polyaluminium Chloride (“PAC”). All three of these chemicals are used by wastewater treatment facilities to varying degrees, and cause the fine solids to adhere to one another until they are large enough to be separated by sedimentation. PAM is the only chemical compound used by the Haian Hengfa Facility, which treats municipal wastewater. The Rugao Hengfa Facility, which treats both municipal and industrial wastewater, uses an additional chemical known as ACH to further improve flocculation efficiency. On the other hand, the Rugao Honghao Facility, a heavy metal wastewater treatment facility, utilises a noticeably higher number of chemicals in addition to PAM and PAC, such as ferrous sulphate, sodium sulphide, sulphuric acid and others to neutralise the variable types of heavy metals present in the wastewater.

Given that most chemical compounds used in wastewater treatment are regulated and may not be easily purchased off the open market, prices are relatively non-transparent. As such, to obtain an idea of the historical price movement of these chemical compounds, the CBRE Industry Report observed the raw prices of the major components of these compounds. PAM primarily consists of Acrylamide, which is a water-soluble monomer and is mainly used in the production of polyacrylamide.¹⁷ According to data from the China Petroleum and Chemical Industry Federation¹⁸, prices have been on a downward trend in recent years, with prices ranging from RMB12,100 to RMB19,800 per ton during 2011 to 2013.

Exhibit 12: Average Price of Acrylamide (99.9% Purity) in China



Source: CEIC, China Petroleum and Chemical Industry Federation

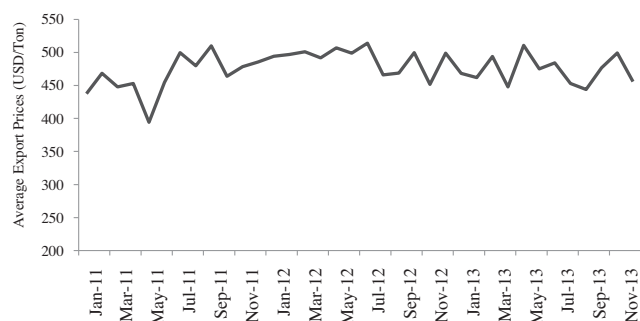
¹⁷ IHS, Feb 2011 - <http://www.ihs.com/products/chemical/planning/ceh/acrylamide.aspx>

¹⁸ China Petroleum and Chemical Industry Federation is a non-government, not-for-profit organisation consisting of companies, institutes and associations in the petroleum and chemical industry on a voluntary basis. It conducts industry research and implements certain administrative functions within the industry on a national level.

INDUSTRY OVERVIEW

The chemical make-up of PAC and ACH is very similar, with aluminium hydroxide as the major raw material. As such, we have observed the prices of aluminium hydroxide as a proxy for the two chemicals. Exhibit 13 illustrated the export prices of aluminium hydroxide instead of import prices, as China exports ten times as much of the compound as it imports. Prices of aluminium hydroxide have been relatively stable since the start of 2011.

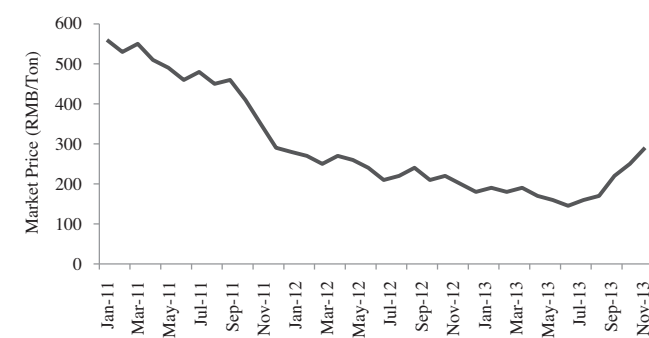
Exhibit 13: Average Price (Export) of Aluminium Hydroxide in China



Source: CEIC, China Petroleum and Chemical Industry Federation

Hydrochloric acid is another chemical often used in the process of synthesising PAC. Exhibit 14 illustrates a gradual decline in prices since the start of 2011, likely caused by the increase in industrial production of the acid in China, which rose roughly 39% during the same period.

Exhibit 14: Average Price of Hydrochloric Acid* in China



*31% + concentration

Source: CEIC, China Petroleum and Chemical Industry Federation

INDUSTRY OVERVIEW

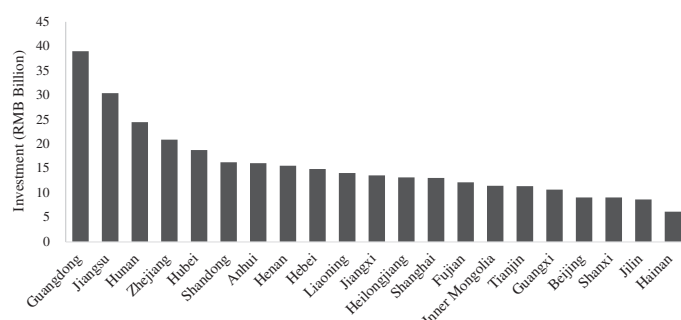
WASTEWATER TREATMENT INDUSTRY OUTLOOK OF THE JIANGSU PROVINCE

The Jiangsu Province has the second highest nominal GDP of all the provinces in China, behind only Guangdong, and has a population of almost 80 million. Its secondary industry (manufacturing) accounted for just over 50% of its GDP in 2012, whilst the tertiary industry (services) accounted for 43.5%. The province's most important industries include some of the heaviest users of water, including electronics and telecommunication equipment, petro-chemicals, textiles, metallurgical industry and machinery building. Given that the province has ranked first in regional innovation ability for four years consecutively since 2009¹⁹, Jiangsu Province will certainly continue to attract domestic and foreign investments in its manufacturing sectors, leading to enhanced opportunities for wastewater treatment.

In terms of the wastewater treatment industry, the 12th Five-Year Plan has budgeted RMB34 billion in wastewater treatment investments in the province for 2011 to 2015, behind only Guangdong Province with RMB39 billion.

According to the China Regional Economic Development report, the province will be spending a total of RMB58 billion in capital investments to improve water infrastructure, of which RMB11.17 billion is allocated for the construction of wastewater treatment plants and RMB1.37 billion for the upgrading of wastewater treatment plants. The rest of the budget is allocated towards water supply infrastructure, sludge treatment facilities and water reclamation plants. A total of 556 wastewater treatment facilities are expected to be built throughout the province with a treatment capacity of 5.1 million m³ per day. However, the bulk of the growth will be in rural regions, as 450 of the 556 plants are expected to be built in towns or villages.

Exhibit 15: Budgeted Wastewater Treatment Investment by Province in the 12th Five-Year Plan



Source: State Council

¹⁹ "Annual Report of Regional Innovation Capability of China 2013", Science Press, January 2014

REGULATORY OVERVIEW

FOREIGN INVESTMENT POLICY

According to the Catalogue of Industries for Guiding Foreign Investment (Revised 2011) (《外商投資產業指導目錄(2011年修訂)》) promulgated by the Ministry of Commerce and the NDRC, construction and operation of wastewater treatment plants fall within the “encouraged” industry for foreign investment in the PRC. Foreign investors may participate in the construction and operation of wastewater treatment projects within the territory of the PRC by means of establishment of joint ventures or wholly foreign owned enterprises.

PROVISIONS ON URBAN DRAINAGE AND WASTEWATER TREATMENT

According to the Provisions on Urban Drainage and Wastewater Treatment (《城鎮排水與污水處理條例》) which was promulgated by the State Council on 2 October 2013 and became effective from 1 January 2014, the competent department of housing and urban-rural development of the State Council is the supervisory authority of the work of urban drainage and wastewater treatment at the national level. Competent departments of urban drainage and wastewater treatment of local people’s governments at or above the county level are the supervisory and administrative authority of urban drainage and wastewater treatment work within their respective administrative regions.

The state government of the PRC shall encourage the adoption of concession operation, government procurement of services and other various means to attract private capital to participate in the investment, construction and operation of urban drainage and wastewater treatment facilities. Upon completion of a construction project of urban drainage and wastewater treatment facilities, the project owner shall organise final inspection and acceptance in accordance with the law. The said project shall be delivered for use only upon passing the final inspection and acceptance, and the project owner shall, within 15 days from the day when the said project passes the final inspection and acceptance, submit the report on final inspection and acceptance and relevant materials to the competent department of urban drainage concerned for record-filing. After urban drainage and sewage treatment facilities pass final inspection and acceptance upon completion, the competent department of urban drainage concerned shall determine qualified facilities maintenance and operation entities to be responsible for managing such facilities through bidding, entrustment and other ways. The state government of the PRC encourages the implementation of a concession system for urban sewage treatment. Competent departments of urban drainage shall enter into maintenance and operation contracts with entities responsible for the maintenance and operation of urban wastewater treatment facilities to specify the rights and obligations of both parties. Entities responsible for the maintenance and operation of urban wastewater treatment facilities shall ensure the quality of the water discharged meets national and local discharge standards, and may not discharge sewage incompliant with relevant standards.

REGULATORY OVERVIEW

Entities responsible for the maintenance and operation of urban sewage treatment facilities shall, in accordance with relevant state provisions of the PRC, test the quality of water inflow and outflow, submit to competent departments of urban drainage and competent departments of environmental protection information on the water quality and volume of sewage treatment as well as the volume of reduction of major pollutants, and submit production and operating costs and other information to the competent departments of urban drainage in accordance with relevant provisions and the contracts on maintenance and operation. Entities responsible for the maintenance and operation of urban sewage treatment facilities shall submit relevant cost information to competent price departments in accordance with relevant provisions of the state government of the PRC. Entities responsible for the maintenance and operation of urban sewage treatment facilities or entities responsible for sludge treatment and disposal shall treat and dispose of sludge in a safe manner, ensure that the sludge after treatment and disposal is in compliance with relevant national standards, track and record the sludge produced as well as the whereabouts, purposes and use volume of the sludge after treatment and disposal, and report the same to competent departments of urban drainage and competent departments of environmental protection.

Drainage entities and individuals shall pay wastewater treatment fees in accordance with relevant provisions of the state government of the PRC. Wastewater treatment fees shall be included in local fiscal budgets for management, be earmarked for the construction and operation of urban sewage treatment facilities and sludge treatment and disposal, and shall not be diverted for any other purposes. The rates of wastewater treatment fees shall not be lower than the normal operating costs of urban wastewater treatment facilities. Local people's governments shall grant subsidies where the amount of wastewater treatment fees collected is insufficient to cover the normal operating costs of urban wastewater treatment facilities in circumstances as deemed necessary by the local people's government.

CONCESSION IN MUNICIPAL PUBLIC UTILITIES INDUSTRY

According to Public Utility Concession Rules, the relevant regulations governing the grant of concession rights for municipal public utilities projects are applicable to the wastewater treatment service projects, and before constructing a public utility project that is within the scope of public utility concession, the constructor shall obtain the concession right for operating the public utility project.

Grant of Concession

According to the Public Utility Concession Rules, the governmental authorities are required to select investors and operators of wastewater treatment projects through competitive tender processes, and enter into concession agreements to grant concession rights of municipal public utilities projects.

REGULATORY OVERVIEW

Terms of Concession

According to 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》), the initial concession terms of urban wastewater treatment should not exceed 30 years. At the expiration of the term, governments shall re-select the concessionaire through competitive tender processes.

Government Supervision on Concessionaire

According to 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 Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (《建設部關於加強市政公用事業監管的意見》), the government's supervision on the concessionaires regarding wastewater treatment projects mainly includes the following:

Routine supervision

The government authorities in charge of supervising the municipal public utilities shall carry out supervision on the quality of the products and services provided by concessionaires regularly and shall supervise the cost of the products and services provided by the concessionaires.

Interim assessment

During the course of project operation, the government authorities in charge of supervising the municipal public utilities shall organise experts to carry out interim assessment over the concessionaires' operation, and the assessment cycle shall be no less than two years generally. Under circumstances deemed necessary by the government authorities, the authorities may carry out annual assessment.

Supervision on material matters

Unless it is otherwise authorised by the government in advance, concessionaire should not transfer or lease concession right, dispose or mortgage project assets, close out or shut down at its own discretion during the concession period. Where a concessionaire intends to unilaterally terminate the contract during the concession period, it shall apply to supervisory authority in advance. Before such supervisory authority's approval of such termination, the relevant concessionaire must maintain its ordinary business and service.

Consequences on violations

In the event that a concessionaire has any of the following conduct, the supervisory authority shall terminate the concession agreement, cancel or revoke the enterprise's concession right and may temporarily take over the enterprise:

- (1) transfer or lease concession right without authorisation;

REGULATORY OVERVIEW

- (2) dispose of or mortgage assets managed by it without authorisation;
- (3) occurrence of material quality or work safety accidents due to inferior management;
- (4) close out or shut down without the government's consent, which has material effect on the public interest and public safety; or
- (5) other behaviours prohibited by laws and regulations.

CONSTRUCTION PROJECT TENDER

According to the Construction Law of the PRC (《中華人民共和國建築法》) modified on 22 April 2011 and implemented on 1 July 2011 and the Bidding Law of the PRC (《中華人民共和國招標投標法》) adopted by the National People's Congress Standing Committee of the PRC on 30 August 1999 and implemented on 1 January 2000, certain large-scale infrastructure and public utilities projects relating to social and public welfare and safety within the PRC, including surveying and prospecting, design, engineering and supervision of such projects, as well as the procurement of major equipment and materials regarding engineering and construction, shall be subject to bidding. The bid winner may, according to the provisions of the contract or the consent of the owner, sub-contract parts of the task that are not vital or principal to the project.

The Provisions on Standards for the Scope and Size of Construction Projects Requiring Bidding (《工程建設專案招標範圍和規模標準規定》) issued and implemented by the State Development Planning Commission on 1 May 2000 and the Administrative Measures of Bidding for Construction Project of Buildings and Public Infrastructures (《房屋建築和市政基礎設施工程施工招標投標管理辦法》) issued and implemented by the Ministry of Construction on 1 June 2001 further provide the specific requirements for bidding. For example, for any of the aforesaid projects, construction contracts of more than RMB2 million in value, procurement contracts of more than RMB1 million in value, service contracts of more than RMB0.5 million in value or total investments of more than RMB30 million, shall be subject to bidding.

The Provisions on Bidding of Exploration and Design Work for Construction Project (《工程建設專案勘察設計招標投標辦法》), the Provisions on Bidding of Construction Projects (《工程建設專案施工招標投標辦法》), the Regulation on the Implementation of the Bidding Law of the PRC (《中華人民共和國招標投標法實施條例》) and relevant specific provisions specify the requirement and procedures for bidding.

PRICING

According to the concession agreement between the project company of relevant wastewater treatment facilities and local government, the project company may have the right to collect wastewater treatment fees from local government. Pursuant to the Notice on Issuing Opinion about Advancing Industrialisation of Urban Sewage and Garbage Treatment by National Development and Planning Commission, Ministry of Construction and State Environmental Protection Administration (《國家計委、建設部、國家環保總局關於印發推進城市污水、垃圾處理產業化發展

REGULATORY OVERVIEW

意見的通知》), and the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the wastewater treatment fees to be received from the government shall be determined according to the principles that the urban wastewater treatment plants shall be able to recover their cost as well as earn a reasonable profit.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated on 26 December 1989, units that cause environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and damage caused to the environment. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. Enterprises and institutions discharging pollutants shall report to and register with the relevant authorities in accordance with the provisions of the environmental protection authority under the State Council.

According to the Law of the PRC on Appraising of Environment Impact (《中華人民共和國環境影響評價法》) promulgated on 28 December 2002, the state government of the PRC has set up a system to appraise the environmental impact of construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of environmental impact. If a construction project may result in a material impact on the environment, an environmental impact report is required, which thoroughly appraises the potential environmental impact. If the construction project may result in a slight impact on the environment, an environmental impact report of analysing or appraising the specific potential environmental impact is required, and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but an environmental impact form shall be filed. The report for registration shall be approved by the relevant PRC authority before construction commences.

According to Regulations on the Administration of Environmental Inspection and Acceptance of Construction Project (《建設項目竣工環境保護驗收管理辦法》) promulgated by State Environmental Protection Administration on 1 February 2002, if a construction unit fails to apply for the environmental inspection and acceptance or the delay of the environmental inspection and acceptance after the construction project has been put into trial production for over three months, the competent environmental department shall have the right to order it to conduct the relevant environmental inspection and acceptance procedures; if the units fails to conduct such procedures within the prescribed period, the competent environmental department has the right to suspend its trial production and impose a fine not exceeding RMB50,000.

According to Circular on Relevant Issues Concerning Monitoring for Inspection and Acceptance of Completed Environmental Protection Facilities of Construction Projects (關於建設專案環境保護設施竣工驗收監測管理有關問題的通知) promulgated by the State Environmental Protection Administration on 22 February 2000, for construction projects of industrial production, the conditions for monitoring of inspection and acceptance ensured by the construction unit shall be: the working conditions are stable during the period of trial production, the production load shall be up to 75% (if

REGULATORY OVERVIEW

the production load is prescribed by the state and local discharge standards, the standards shall be implemented accordingly) and the environmental protection facilities are operating normally. If the production load cannot be reach up to 75% or more during the prescribed period of trial production, the monitoring of inspection and acceptance shall be conducted in stages.

WATER QUALITY

The water quality of effluent flowing from municipal wastewater treatment plants should comply with the standards set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants (《城鎮污水處理廠污染物排放標準》) (GB18918-2002) promulgated on 24 December 2002 and amended on 8 May 2006. According to the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the company operating centralised treatment facilities for municipal wastewater is responsible for the quality of the effluent from the wastewater treatment plant.

According to the Notice on Strict Implementation of Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants (《關於嚴格執行城鎮污水處理廠污染物排放標準的通知》) promulgated by the Ministry of Environmental Protection and implemented on 11 October 2005, companies operating wastewater treatment facilities that discharge pollutants into the key water basins determined by the state and the provincial government or any closed and semi-closed water bodies such as lake and reservoirs should conform to the Class 1-A standard of GB18918-2002. Companies operating any other wastewater treatment facilities should conform to the Class 1-B standard of GB18918-2002 when discharging pollutants. Local sewage discharge requirements may be gradually upgraded in accordance with local circumstances and requirements. Existing sewage treatment facilities that currently fail to meet the above standards shall be upgraded to conform to the requirements within a time limit specified by the local authorities.

On 4 March 2013, the Rugao City Environmental Protection Bureau (如皋市環境保護局) issued a notice on the Standard Upgrade and Improvement of existing Wastewater Treatment Plants (《關於現有污水處理設施實施提標改造》), which specified that according to the Notice on Strict Implementation of Discharge Standards regarding Pollutants from Urban Wastewater Treatment Plants (《關於嚴格執行城鎮污水處理廠污染物排放標準的通知》), the People's Government of Nantong required the wastewater treatment facilities in Rugao to upgrade and conform to Class 1-A discharge standard of GB18918-2002 by the end of 2013. The Rugao City Environmental Protection Bureau (如皋市環境保護局) and its supervising authorities Nantong City Environmental Protection Bureau (南通市環境保護局) and Jiangsu Province Environmental Protection Department (江蘇省環保廳), had, in May 2014, given their respective written consent to extend the deadline of the upgrade of the Rugao Hengfa Facility and to allow the Rugao Hengfa Facility to continue conforming with the existing Class 1-B discharge standards prior to 31 December 2014.

On 4 June 2013, the People's Government of Haian County issued a Notice of Assigned Tasks of Haian Government (《海安縣人民政府交辦事項通知單》) which required Haian Hengfa to upgrade the Haian Hengfa Facility to conform to the Class 1-A discharge standard of GB18918-2002 by the end of November 2013. The Haian County Environmental Protection Bureau (海安縣環保局) and its supervising authorities, Nantong City Environmental Protection Bureau (南通市環境保護局) and

REGULATORY OVERVIEW

Jiangsu Province Environmental Protection Department (江蘇省環保廳), had, in May 2014, given their respective written consent to allow the Haian Hengfa Facility to continue conforming with the existing discharge standards pending the completion of the upgrade works that are being carried out on the facility as at the Latest Practicable Date and will have to be completed by September 2014.

QUALIFICATION REQUIREMENTS FOR THE OPERATION OF WASTEWATER TREATMENT PROJECTS

Qualification for the Operation of Environmental Pollution Treatment Facilities

According to the Measures for the Licence Administration of Qualification for Operation of Environmental Pollution Treatment Facilities (《環境污染治理設施運營資質許可管理辦法》) promulgated by the Ministry of Environmental Protection on 30 April 2012 and implemented on 1 August 2012, the operator of environmental pollution treatment facilities shall apply for an environmental qualification certificate and shall conduct the business of operating environmental pollution treatment facilities according to the provisions of the environmental qualification certificate. Qualifications for operation of environmental pollution treatment facilities are divided into different professional categories, such as domestic wastewater, industrial wastewater, dust-removal and desulfurisation, industrial exhaust gas, industrial solid wastes (excluding dangerous wastes), organic wastes, household garbage and automatic and continuous monitoring. Qualifications for operation of automatic and continuous monitoring facilities are divided into two classes, namely class B qualification and temporary qualification; while operation qualifications of other environmental pollution treatment facilities are divided into three classes, which are the class A qualification, class B qualification and temporary classification.

The application requirements for class A qualifications are the strictest among the three qualification levels, and the competent authority responsible for the examination and approval of class A qualifications is the Ministry of Environmental Protection under the State Council. For class B and temporary environmental qualification certificates, the competent authority responsible for the examination and approval of the qualifications is the environmental protection departments at the provincial level, and both of the qualifications can be used nationwide. Certificate-holding entities may undertake business of operating environmental pollutants treatment facilities nationwide within the categories specified in environmental qualification certificates for operation of environmental pollutants treatment facilities.

On 27 March 2014, the Environmental Protection Bureau Administrative Office (環境保護部辦公廳) issued the Notice on the Reform of Operation Approvals of Environmental Pollution Treatment Facilities (《關於改革環境污染治理設施運行許可工作的通知》), confirming and informing all provincial environmental protection departments in respect of the cancellation of the class A and class B qualification and temporary qualification for the operation of environmental pollution treatment facilities.

REGULATORY OVERVIEW

Pollutants Discharge Permit

According to the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) amended and promulgated by the Standing Committee of the National People's Congress on 28 February 2008 and implemented on 1 June 2008, a company operating centralised treatment facilities of urban wastewater should obtain pollutants discharge permit.

In Jiangsu Province, an applicant for water pollutants discharge permits must satisfy the following requirements: (i) the production capacity, processes, equipments and products shall be in accordance with the requirements of national and provincial industrial policies and industrial development plans, (ii) the applicant shall have its environmental impact assessment documentation examined and approved by the environment protection authority, and pass the environmental examination and acceptance, (iii) the pollution prevention and control facilities, the pollution treatment capacity and the discharge of pollutants shall meet state and local standards and requirements, (iv) the construction of outlet for sewage discharge shall comply with the relevant requirements, (v) a key pollutant discharging unit shall install online monitoring system which is linked to the monitoring device network of the environmental protection authority, (vi) units that may cause water pollution accidents shall make precautionary plans in response to environmental emergencies, and prepare facilities, equipments and materials for emergency use; and (vii) other conditions as required by the laws and regulations.

According to Administrative Regulations on Levy and Use of Pollutant Discharge Fee (《排污費徵收使用管理條例》) implemented by the State Council on 1 July 2003, the units or individual business owners who directly discharge pollutants to the environment shall pay pollutant discharge fee.

LAND USE RIGHTS AND CONSTRUCTION LAND PLANNING PERMIT

According to the revised Land Administration Law of the PRC (《中華人民共和國土地管理法》) which became effective on 28 August 2004, land owned by the state government of the PRC may be granted or held under license by construction units or individuals according to law. The state government of the PRC 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. If the land is occupied without approval or by deception, the land administrative departments of the state government of the PRC at or above the county level shall order the construction units or individuals to return the land that is illegally occupied. Where the act involves turning agricultural land into land for construction uses without authorisation, which is in violation of the general plan for utilisation of land, a demolition order may be imposed on the newly constructed buildings and other structures on the land illegally occupied requiring demolition within a prescribed time limit. In addition, the competent land administrative departments can issue an order to confiscate the newly constructed buildings and other structures and to impose a fine where the act has not violated the general plans for the utilisation of land. Persons directly responsible for the aforementioned misconduct are subject to administrative punishment and where the case constitutes a crime, criminal responsibility shall be affixed.

REGULATORY OVERVIEW

On 1 January 2008, the Urban and Rural Planning Law of the PRC (the “**Urban and Rural Planning Law**”) (《中華人民共和國城鄉規劃法》) was implemented by the Standing Committee of the National People’s Congress. According to the Urban and Rural Planning Law, a construction land use planning permit is needed for the use of both allocated land and granted land.

Construction Land Use Planning Permit: For a construction project using allocated land, once the project has been authorised, approved, or recorded by relevant administrative departments, the construction entity of such project shall apply to the urban and rural planning administrative department at the municipal or county level for construction planning permission. The abovementioned administrative department will further determine the location, size and scope allowed for construction based on regulatory detailed planning and will issue a construction land use planning permit.

Before the granting of a state-owned land use right, the urban and rural planning administrative department at the municipal or county level will specify certain planning conditions, such as the location and nature of the land and intensity of exploitation based on the regulatory detailed planning. Such planning conditions will be incorporated in the state-owned land use right grant contract. After entering into such state-owned land using right grant contract, the construction entity using such granted land shall apply to the urban and rural planning administrative department at the municipal or county level for a construction land use planning permit.

If a construction unit who was authorised to use the construction land fails to obtain a construction land use planning permit, the state government of the PRC at or above the county level shall withdraw the authorisation to use the state-owned land. If the land has already been occupied, it shall be returned promptly. Furthermore, the construction unit 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, for construction work that was conducted in the city or town planning area, the construction entity shall apply to the competent administrative department of the state government of the PRC for a construction work planning permit. For construction work that proceeded without the construction work planning permit or in violation of the provisions of the construction work planning permit, the urban and rural planning administrative department at or above the county level can order the termination of such construction. If the impact on the planning caused by such construction can be eliminated, the department shall order such construction entity to make a correction within a prescribed time limit and pay a fine of not less than 5% of the construction cost but not more than 10% of such cost; if such impact cannot be eliminated, the department shall order the construction entity to demolish such buildings or structures. For construction work that cannot be demolished, the department shall confiscate such buildings or structures or seize any illegal income and may also impose a fine not more than 10% of the construction cost.

REGULATORY OVERVIEW

Commencement of Construction Work Permit: According to the Construction Law of the PRC (《中華人民共和國建築法》) implemented on 1 March 1998 and the Administrative Regulation of Construction Work Quality (《建設工程質量管理條例》) implemented on 30 January 2000, a construction entity shall, prior to the start of construction of a construction project, apply to the competent department of the construction administration of the PRC government at or above the county level of the place where the project is to be located for a commencement of construction work permit pursuant to the relevant regulations. However, small projects, as determined by the competent department of construction administration of the State Council, are subject to exceptions. In addition, a construction project which has already obtained approvals for its construction commencement report pursuant to the terms of reference and procedures prescribed by the State Council is no longer required to obtain a commencement of construction work permit. If a construction entity carries out construction work without obtaining a commencement of construction work permit or in circumstances where its construction commencement report has not been approved, it shall be ordered to stop the construction work and to make corrections within a certain time limit. The construction entity shall also be fined not less than 1% but not more than 2% of the contractual project price.

Acceptance Checks: According to the Administrative Regulation of Construction Work Quality (《建設工程質量管理條例》) and the revised Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) which entered into effect on 19 October 2009, a construction project shall not be delivered for use unless it has passed 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, it shall be ordered to make corrections and also pay a fine of not less than 2% but not more than 4% of the contractual project price, and shall be obliged to pay compensation if any losses have been caused. The construction entity should file a record at the competent construction administrative department at or above the county level at the place where the project is located within 15 days from the day when the construction project passes the acceptance checks. If the construction entity fails to file such a record within the time limit, it shall be ordered to make corrections within a prescribed time limit and shall be fined not less than RMB200,000 but not more than RMB500,000.

TAXATION

Business Tax

According to the Reply of the State Administration of Taxation on exempting Business Tax for Wastewater Treatment Fees (《國家稅務總局關於污水處理費不徵收營業稅的批復》) promulgated and implemented by the State Taxation Administration on 14 December 2004, the wastewater treatment service provided by a wastewater treatment enterprise does not fall into the scope of work that should be subject to business tax. Therefore, no business tax will be levied on the wastewater treatment fees.

REGULATORY OVERVIEW

Value Added Tax

According to the Notice of Ministry of Finance and State Taxation Administration on Value Added Tax Policy of Comprehensive Utilisation of Resources and Other Products (《財政部、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知》) promulgated by the Ministry of Finance and the State Administration of Taxation on 9 December 2008 and amended on 1 April 2013, the PRC state government of the PRC exempts the wastewater treatment services from value added tax from 1 January 2009. Wastewater treatment service is the business through which the wastewater (including municipal sewage and industrial wastewater) will be dealt with to satisfy the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002) or the direct discharge limit regulated under the national and local water pollutants discharge standards.

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (or “EIT Law”) promulgated on 16 March 2007 and effective on 1 January 2008 and the Implementation Rules on the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on 6 December 2007 and effective on 1 January 2008, enterprise income tax rates applicable to both domestic and foreign-invested enterprises were unified at 25% effective from 1 January 2008. Enterprises which enjoyed lower enterprise income tax rates are given a five-year transitional period. Such enterprises will continue to enjoy the lower tax rate before they are gradually subject to the tax rate of 25% within the transitional period. The specific conditions and scope of projects shall be jointly formulated by the competent department of finance and taxation of the State Council in collaboration with other relevant departments of the State Council and shall be publicised and implemented after being approved by the State Council.

According to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise (Circular Guoshuihan [2009] No. 698) (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》)(國稅函[2009] 698)號) implemented on 1 January 2008, except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (the “**Indirect Transfer**”) located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5%, or (ii) does not tax its residents on their foreign income, the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. In this case, the PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the Indirect Transfer without reasonable commercial purpose and in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purpose and re-characterise the Indirect Transfer. As a result, gains derived from such Indirect Transfer by the foreign investor may be subject to the EIT Law.

Furthermore, under the EIT Law and the implementation rules issued by the State Council of China withholding income tax at the rate of 10% is applicable to dividends payable by a PRC tax resident enterprise to investors (excluding individual natural persons) that are “non-resident enterprises” (and that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with the

REGULATORY OVERVIEW

establishment or place of business) to the extent that such dividends have their sources within China, unless it is entitled to a reduction of such withholding tax under applicable tax treaties. Similarly, any gain realised on the transfer of shares of a PRC tax resident enterprise by such investors is also subject to 10% (or a lower treaty rate) PRC income tax if such gain is regarded as income derived from sources within China. Investors who were established in Hong Kong and had held 25% or more of equity interest in a PRC tax resident enterprise within 12 months prior to receiving dividends from such enterprise are considered non-resident enterprises by the PRC tax authority are subject to a PRC withholding tax at a rate of 5%.

APPROVALS REQUIRED FOR REORGANISATION AND LISTING

Registration Process Under the No. 37 Notice

According to “Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment Financing and Inbound Investment via Special Purpose Vehicles” (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**No. 37 Notice**”) promulgated on 4 July 2014 by the SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of the SAFE before they establish or control any offshore special purpose vehicles for the purpose of investment and financing with the assets or equity interests of PRC domestic companies or the overseas assets or equity owned by them. Pursuant to the No. 37 Notice, the domestic resident natural persons include those individuals who hold PRC citizenship and those individuals who are not PRC nationals but reside habitually in the PRC for the purpose of economic interests. Based on our Group’s corporate history, the existing Shareholders are and have always been permanent resident domiciled in Hong Kong. Our PRC legal advisers are of the opinion that the ultimate controllers of our Group are not subject to the registration process under the No. 37 Notice.

Application of the M&A Rules

Pursuant to “Provisions Regarding Mergers with and Acquisitions of Domestic Enterprises by Foreign Investors” (關於外國投資者並購境內企業的規定) (the “**M&A Rules**”) promulgated by six PRC regulatory agencies in August 2006, where a company, enterprise, or natural person in China acquires an affiliated company in China in the name of its lawfully established or controlled overseas company, examination and approval procedures must be gone through with MOFCOM. Besides, overseas listing of a special purpose vehicle, which is directly or indirectly controlled by a domestic company or natural person for the purpose of overseas listing of the interests in a domestic company actually held by such domestic company or natural person, shall be subject to approval of China Securities Regulatory Commission. Considering the existing Shareholders are and have always been permanent residents of Hong Kong, our PRC legal advisers are of the opinion that the above approval procedures of M&A rules do not apply to the Listing.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR HISTORY

Our Company was incorporated in the Cayman Islands on 25 February 2014 and became the holding company of our various subsidiaries through the implementation of the Reorganisation, further details of which are discussed in the paragraph headed “Reorganisation” in this section. Our Group’s business was initially founded by Ms. Chan in 2002 when Haian Hengfa was established for the development of our first wastewater treatment facility in Haian County, Jiangsu Province, China. Before establishing our Group’s business, Ms. Chan was managing her family businesses, including but not limited to the sales and trading of garments and accessories, in the PRC. Our water and wastewater treatment business now covers municipal, industrial and heavy metal wastewater treatment and is operated through three of our PRC subsidiaries: Haian Hengfa, Rugao Hengfa and Rugao Honghao.

The following table sets out the key milestones of our development:

2002	<ul style="list-style-type: none">Entered into BOT agreement with Haian County Construction Bureau for the Haian Hengfa Facility (Phase I)Establishment of Haian Hengfa
2003	<ul style="list-style-type: none">Commencement of construction of the Haian Hengfa Facility (Phase I)Entered into BOT agreement with Rugao ETDZ Administrative Committee for the Rugao Hengfa Facility (Phase I)Establishment of Rugao Hengfa
2004	<ul style="list-style-type: none">Commencement of construction of the Rugao Hengfa Facility (Phase I)
2005	<ul style="list-style-type: none">Completion of construction of the Haian Hengfa Facility (Phase I)Commencement of operations of the Haian Hengfa Facility (Phase I)
2006	<ul style="list-style-type: none">Completion of construction of the Rugao Hengfa Facility (Phase I)
2007	<ul style="list-style-type: none">Commencement of operations of the Rugao Hengfa Facility (Phase I)
2008	<ul style="list-style-type: none">Commencement of construction of the Haian Hengfa Facility (Phase II)
2009	<ul style="list-style-type: none">Commencement of construction of the Rugao Hengfa Facility (Phase II)Entered into BOT agreement with Rugao ETDZ Administrative Committee for the Rugao Hengfa Facility (Phase II)Completion of construction of the Haian Hengfa Facility (Phase II)Commencement of operations of the Haian Hengfa Facility (Phase II)
2010	<ul style="list-style-type: none">Completion of construction of the Rugao Hengfa Facility (Phase II)Commencement of operations of the Rugao Hengfa Facility (Phase II)
2013	<ul style="list-style-type: none">Acquired the entire issued share capital of Greatcorp, which in turn owned the entire share capital of Rugao Honghao, which operates the Rugao Honghao FacilityEntered into BOT agreement with Haian County Construction Bureau for the Haian Hengfa Facility (Phase II)

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR SUBSIDIARIES AND THEIR PRINCIPAL BUSINESS ACTIVITIES

Everbest Water Treatment Development

Everbest Water Treatment Development was incorporated in May 2002 in Hong Kong by Ms. Chan. Everbest Water Treatment Development has been the holding company of Haian Hengfa and Rugao Hengfa since their establishment. In July 2005 through a series of restructuring steps, Everbest Water Treatment Development became 50% owned by Wealthy Sea, a close associate of Mr. Chau, and 50% owned by Everbest Investment Haian, a company owned by Ms. Wong and Ms. Chan as to 60% and 40%, respectively. Ms. Wong is the mother of Ms. Chan and Mr. Chan, who is a Director and a Controlling Shareholder. Mr. Chau has been a director and the chairman of Haian Hengfa and Rugao Hengfa since their incorporation and a Controlling Shareholder. He has been involved in our Group's business since December 2002. The restructuring recognised Mr. Chau's involvement in and contribution to our Group since 2002.

Haian Hengfa

Our operations in the PRC first began when Haian Hengfa was established in the PRC on 18 December 2002 as a limited liability company with an initial registered capital of RMB18 million and a licensed business scope of municipal wastewater treatment. Haian Hengfa was co-invested as a Sino-foreign equity joint venture enterprise by Everbest Water Treatment Development and Haian Construction Development Investment, each holding 70% and 30% stakes in Haian Hengfa, respectively. Haian Construction Development Investment was established in March 2002 in the PRC by the Haian County Construction Bureau and is an Independent Third Party.

The initial registered capital and operations of Haian Hengfa were funded in cash and in the form of land use rights, respectively, by Everbest Water Treatment Development and Haian Construction Development Investment in proportion to the equity interests they then held in Haian Hengfa. The capital contribution made by Everbest Water Treatment Development was in turn funded by Ms. Chan with proceeds from her family businesses. Since its incorporation, Haian Hengfa's shareholding structure has remained unchanged. As part of the Reorganisation, Everbest Water Treatment Development became an indirect wholly-owned subsidiary of our Company.

After its establishment in 2002, Haian Hengfa commenced the construction of the phase I of the Haian Hengfa Facility in Haian County, Jiangsu Province, the PRC. The construction works were completed in January 2005. The phase I of the Haian Hengfa Facility commenced operations in May 2005 and provides wastewater treatment services to the residents of Haian County. The facility was expanded into phase II in 2009, with a combined constructed wastewater treatment capacity of 40,000 tons per day. Haian Hengfa operates the facility on a BOT project model and Everbest Water Treatment Development entered into BOT agreements with the local government authority for both phases I and II in 2002 and 2013 respectively, under which Haian Hengfa was granted the concession rights to provide wastewater treatment services in Haian County. For details regarding the legality and ownership of phase II of Haian Hengfa Facility, please refer to the section headed "Business — Real Property — Properties Occupied by Our Group under the BOT Agreements — Note (1)" in this prospectus.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The Haian Hengfa Facility was our first wastewater treatment project and employs CAST and CASS in phase I and phase II, respectively. Please refer to the section headed “Business — Details of our Wastewater Treatment Facilities” in this prospectus for details relating to the system employed by our wastewater treatment projects.

Rugao Hengfa

The Haian Hengfa Facility has served as a model for our two other wastewater treatment facilities, the Rugao Hengfa Facility and the Rugao Honghao Facility. Rugao Hengfa was established by Everbest Water Treatment Development in the PRC on 27 November 2003 as a wholly foreign-owned enterprise with limited liability with an initial registered capital of US\$2.88 million.

In October 2004, Rugao Hengfa started the construction of the phase I of the Rugao Hengfa Facility in the Rugao ETDZ to treat a mixture of municipal and industrial wastewater. Phase I was completed in October 2006. The capital expenditure and operations of the Rugao Hengfa Facility were funded by Everbest Water Treatment Development, which were in turn funded by Ms. Wong and Ms. Chan with proceeds from their family businesses.

The Rugao Hengfa Facility commenced operations in February 2007 and is able to treat a mixture of municipal and industrial wastewater discharged by the residents living nearby and factories operating in the Rugao ETDZ. We expanded the Rugao Hengfa Facility to phase II in 2010, and it had doubled its constructed wastewater treatment capacity to 40,000 tons per day. Rugao Hengfa follows the same BOT project model applied for Haian Hengfa and was granted the concession rights to operate both phase I and phase II pursuant to the BOT agreements entered into between Everbest Water Treatment Development and the local government administrative committee in 2003 and 2009, respectively.

Greatcorp and Grand Target

Greatcorp is an investment holding company incorporated in Hong Kong on 10 February 2010 and became an indirect wholly-owned subsidiary of our Company as a result of the Reorganisation since 15 February 2013. Since 10 March 2010 and prior to 15 February 2013, Greatcorp was held as to 50% by each of Ms. Wong and Ms. Chan. On 15 February 2013, Ms. Wong and Ms. Chan transferred all the shares they held in Greatcorp to Grand Target, a wholly-owned subsidiary of Everbest Water Treatment Development since its incorporation in the BVI on 8 January 2013, for a consideration of HK\$18,397,000, which was determined based on arm’s length negotiation. Please refer to the paragraph headed “Reorganisation — Acquisition of Shares in Greatcorp” in this section for details. Greatcorp has been the offshore holding company of Rugao Honghao since the establishment of Rugao Honghao.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Rugao Honghao

Rugao Honghao, our third and most recent wastewater treatment company in the PRC, was incorporated as a wholly foreign-owned enterprise with an initial registered capital of US\$3.0 million on 30 April 2010 by Greatcorp. The capital expenditure and operations of Rugao Honghao were funded by Greatcorp, which were in turn funded by Ms. Wong and Ms. Chan with proceeds from their family businesses. As a result of the Reorganisation, Greatcorp became an indirect wholly-owned subsidiary of our Company since 15 February 2013.

The Rugao Honghao Facility was designed specifically to treat heavy metal wastewater discharged by factories operating in the Rugao ETDZ, with a constructed wastewater treatment capacity of 3,500 tons per day. Like our other two projects, Rugao Honghao was granted the concession right to provide industrial wastewater treatment services in Rugao ETDZ pursuant to the BOT agreements entered into between Everbest Water Treatment Development, Greatcorp and the local administrative government committee in 2010 and 2011, respectively.* Construction of the Rugao Honghao Facility commenced in June 2010. The Rugao Honghao Facility completed construction in November 2011 and became commercially operational in January 2012.

This project marked a milestone in our expansion from the relatively straightforward treatment of municipal wastewater, through industrial wastewater, to the treatment of more heavily contaminated industrial wastewater containing water-soluble heavy metal.

Haian Property

During our Track Record Period, our subsidiaries include Haian Property. Haian Property was established in the PRC in June 2003 with an initial registered capital of RMB12.0 million.

At its establishment, Haian Property was held as to 100% by Everbest Water Treatment Development, which was funded by Everbest Water Treatment Development and in turn, funded by Ms. Wong and Ms. Chan with proceeds from their family businesses. Haian Property was established in June 2003 to facilitate the development of properties and to provide consultancy and training services for our wastewater treatment operations. In June 2012, Everbest Water Treatment Development voluntarily commenced the process to deregister Haian Property to streamline the corporate structure and business focus of our Group, and Haian Property was deregistered on 6 June 2014.

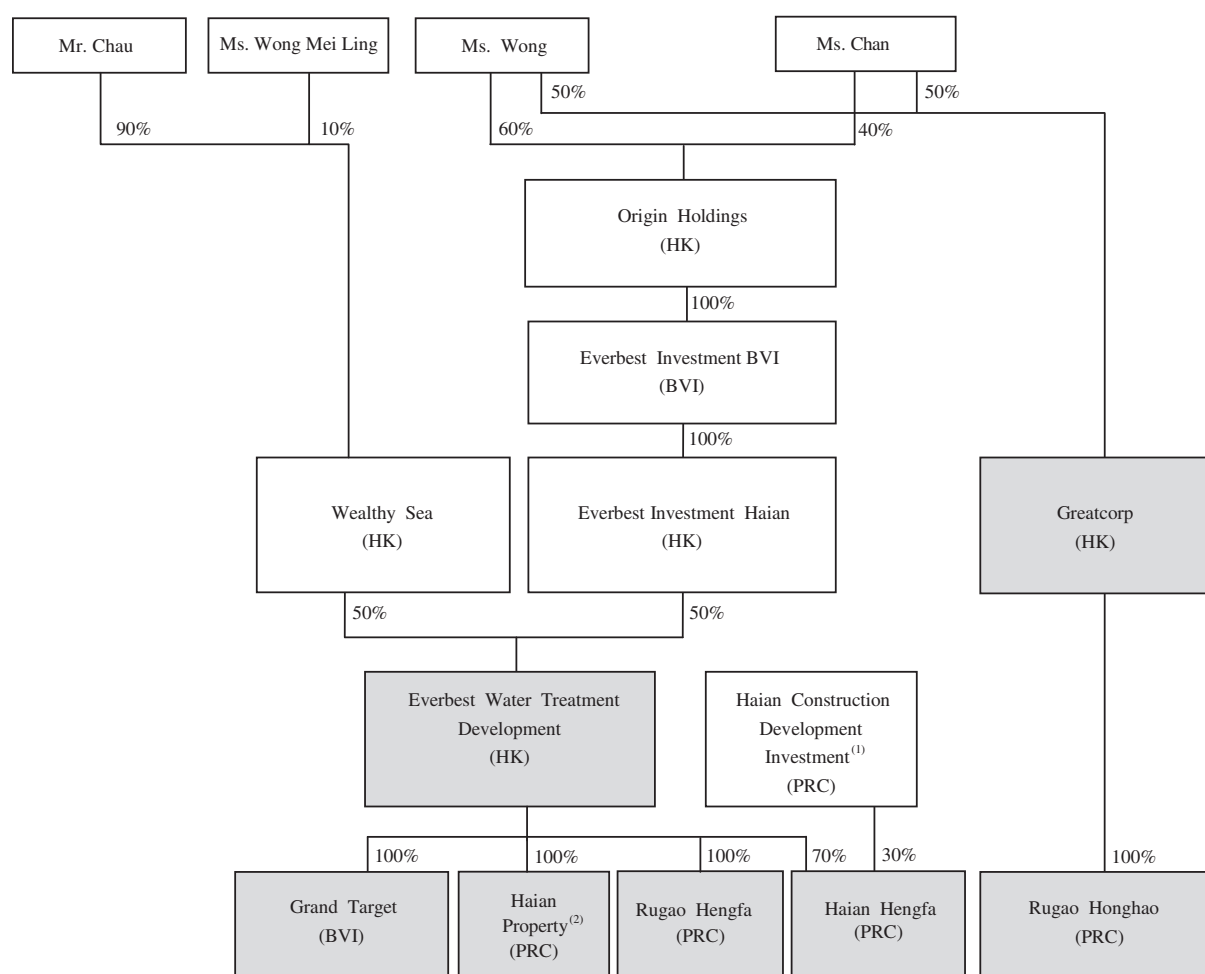
* The BOT agreement for the Rugao Honghao Facility was initially entered into between the local government and Everbest Water Treatment Development in 2010, which had been cooperating with the local government and operating the Rugao Hengfa Facility. Upon arm's length negotiation, it was agreed by Ms. Wong, Ms. Chan and Everbest Water Treatment Development that the development of the Rugao Honghao Facility be funded by Ms. Wong and Ms. Chan through Greatcorp. The rights and obligations of Everbest Water Treatment Development under the BOT agreement were subsequent assumed by Greatcorp by way of a supplemental BOT agreement entered into in 2011.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our Directors have confirmed that as at the Latest Practicable Date, there were no outstanding claims or liabilities against Haian Property and there were no outstanding claims or liabilities against our Group in connection with the deregistration of Haian Property.

REORGANISATION

The following diagram illustrates our structure prior to the commencement of the Reorganisation:



Notes:

- (1) Haian Construction Development Investment is an Independent Third Party.
- (2) In June 2012, we voluntarily commenced the process to deregister Haian Property to streamline the corporate structure and business focus of our Group, and Haian Property was deregistered on 6 June 2014.

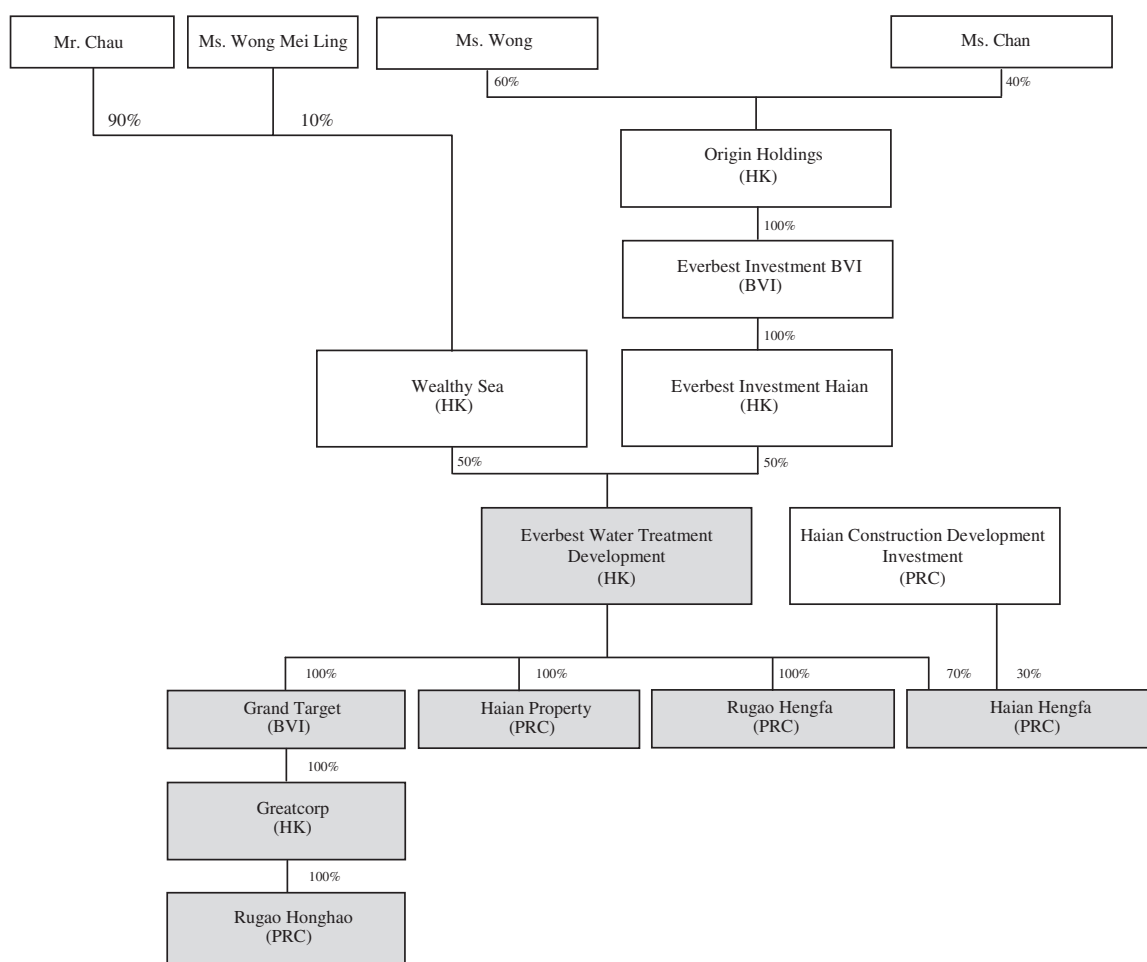
HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following steps were undertaken in the Reorganisation which involved a series of acquisitions and the rationalisation of the corporate structure of our Group.

— Acquisition of shares in Greatcorp

On 15 February 2013, Grand Target acquired 50% of the issued shares in Greatcorp from each of Ms. Wong and Ms. Chan for a total consideration of HK\$18,397,000. The consideration was determined by the parties upon arm's length negotiation. The acquisition was completed on the same day. Immediately upon completion of the share transfer, Ms. Wong and Ms. Chan held their shares in Greatcorp indirectly through Origin Holdings via a chain of companies.

The following chart shows the shareholding structure and corporate structure of our Group following the completion of the above share transfer:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

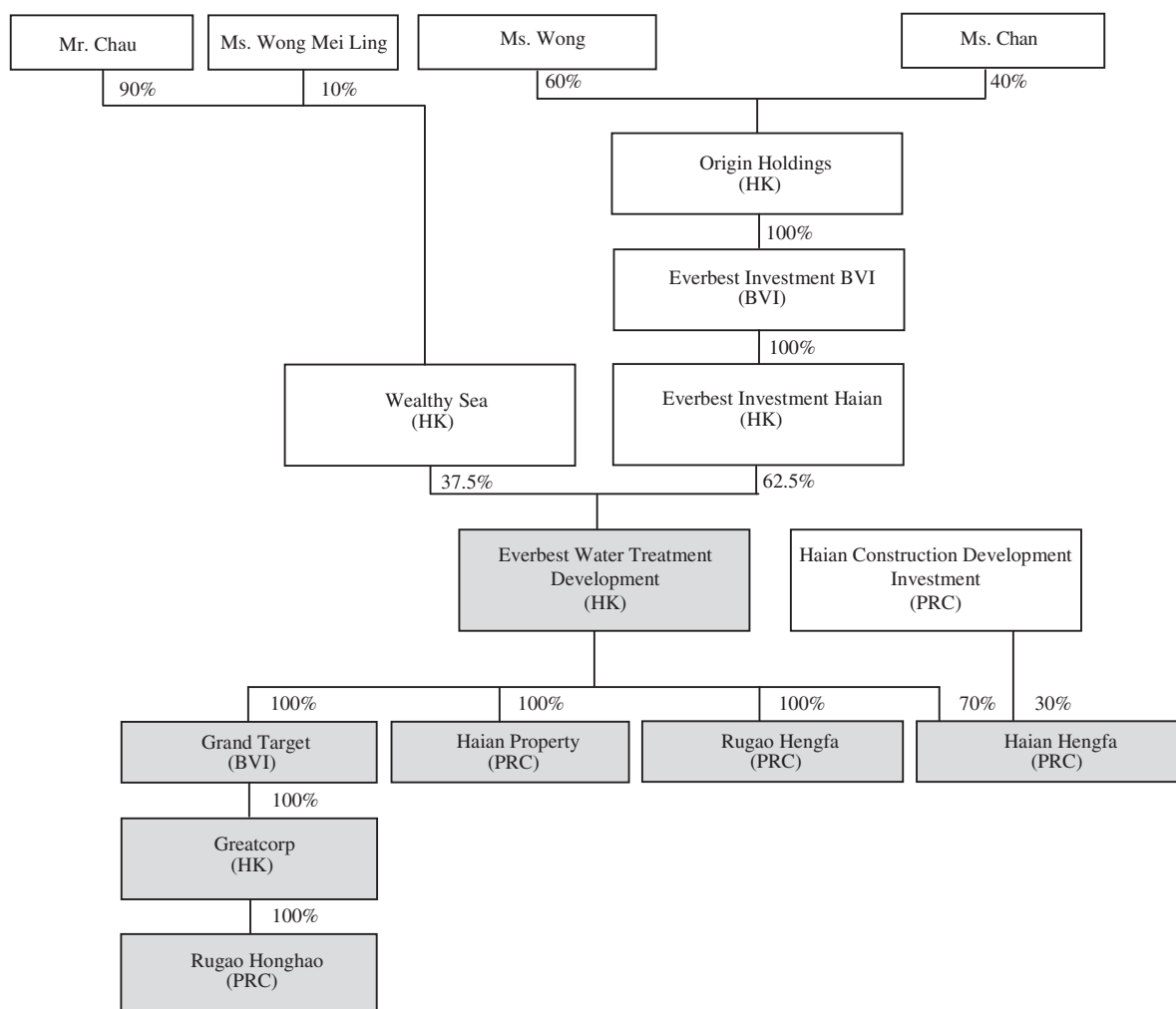
— Allotment of shares of Everbest Water Treatment Development to Wealthy Sea and Everbest Investment Haian

On 25 February 2014, in consideration for cancellation of a loan of HK\$30,822,783.35 owed by Everbest Water Treatment Development to Wealthy Sea, 373 shares of HK\$1.00 each in Everbest Water Treatment Development were allotted and issued to Wealthy Sea.

On the same day, in consideration for cancellation of a loan of HK\$51,481,485.33 owed by Everbest Water Treatment Development to Everbest Investment Haian, 623 shares of HK\$1.00 each in Everbest Water Treatment Development were allotted and issued to Everbest Investment Haian.

Immediately upon completion of such share allotments and issues, Everbest Water Treatment Development was owned as to 37.5% by Wealthy Sea and as to 62.5% by Everbest Investment Haian.

The following chart shows the shareholding structure and corporate structure of our Group following the completion of the above share allotments and issues:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

— *Incorporation of our Company and ELL BVI*

On 25 February 2014, our Company was incorporated as an exempted company in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 3,800,000,000 Shares of HK\$0.0001 each. One Share was allotted and issued by our Company to the initial subscriber, Mapcal Limited, at HK\$0.0001 per Share and such one Share was transferred to Wealthy Sea on the same day. On the same day, 625 Shares were allotted and issued to Everbest Investment Haian and another 374 Shares were allotted and issued to Wealthy Sea for cash at par value.

Immediately upon completion of such issue, allotment and transfer of Shares, our Company was owned as to 37.5% by Wealthy Sea and as to 62.5% by Everbest Investment Haian.

On 25 February 2014, ELL BVI was incorporated as a BVI business company in the BVI and is authorised to issue a maximum of 50,000 shares of no par value each, of which 100 shares was allotted and issued to our Company for cash at US\$1.00 per share.

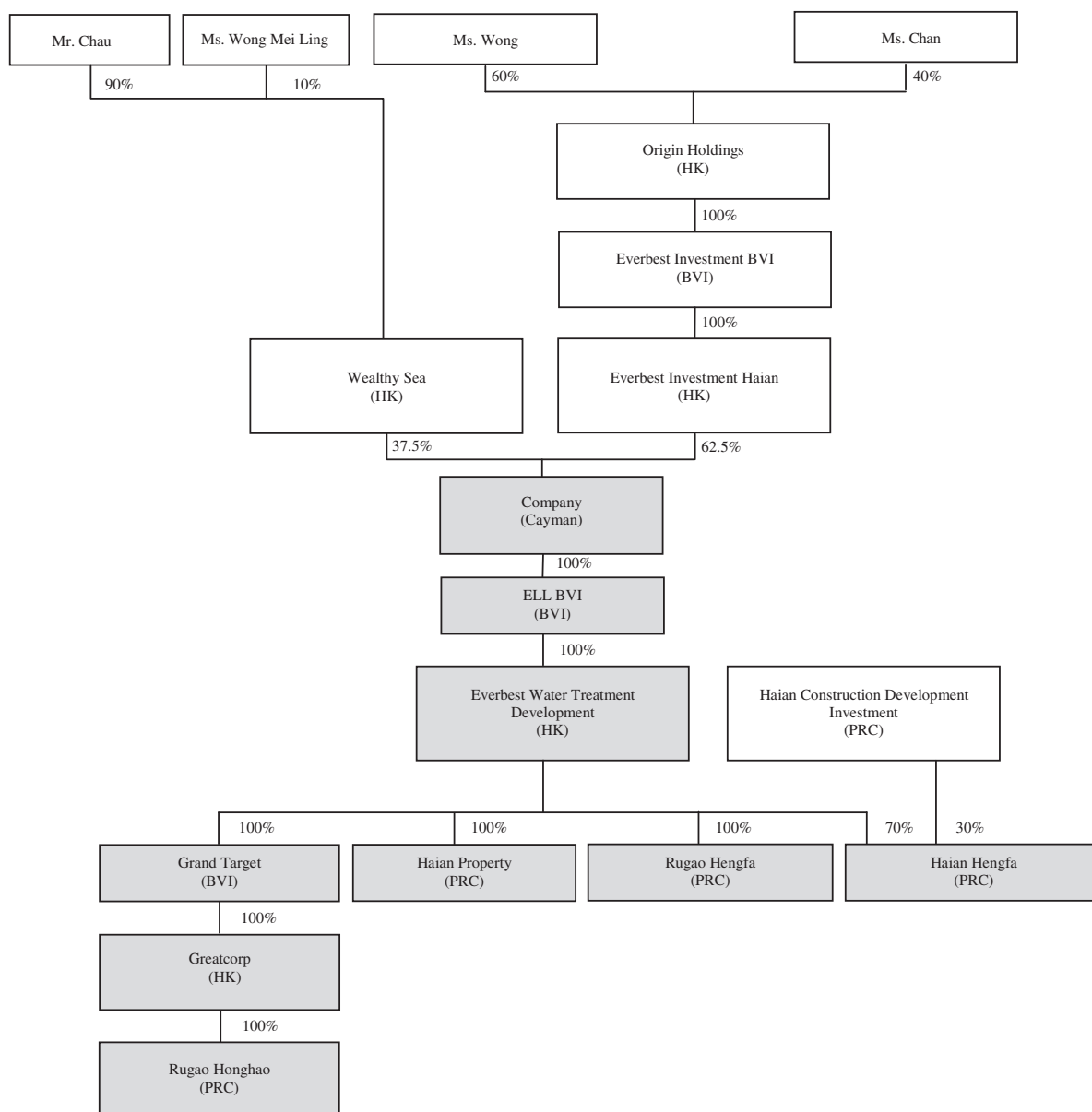
— *Transfer of Everbest Investment Haian's and Wealthy Sea's equity interest in Everbest Water Treatment Development to ELL BVI*

On 25 February 2014, Everbest Investment Haian and Wealthy Sea transferred all the shares they held in Everbest Water Treatment Development to ELL BVI in consideration of our Company allotting and issuing 374,999,375 and 224,999,625 consideration Shares to them, respectively. Such share transfer and share allotment and issue were completed on the 25 February 2014.

Immediately upon completion of the transfer, ELL BVI directly holds the entire issued share capital in Everbest Water Treatment Development. ELL BVI was wholly-owned by our Company, which was in turn owned as to 37.5% by Wealthy Sea and as to 62.5% by Everbest Investment Haian.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart shows the shareholding structure and corporate structure of our Group following the completion of the above share transfers:

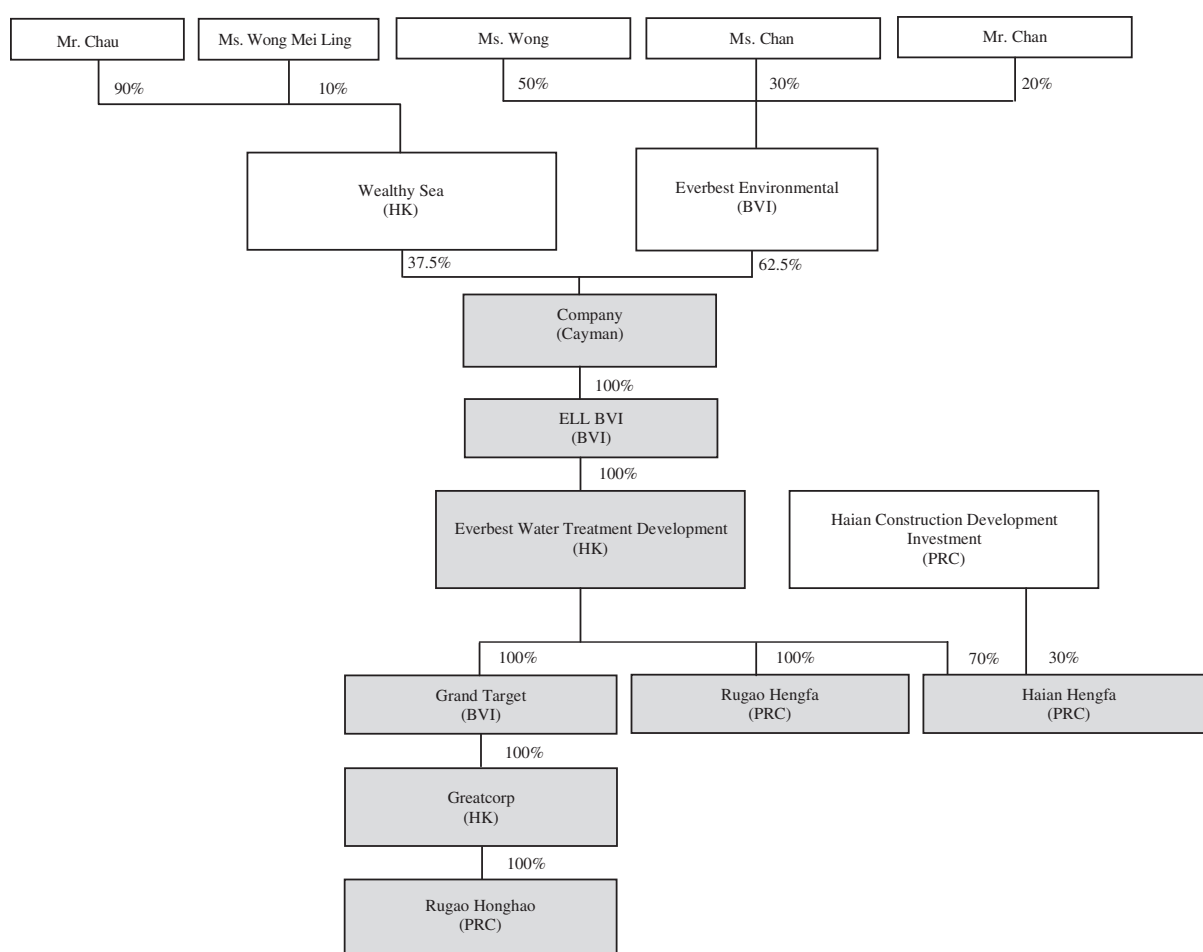


HISTORY, REORGANISATION AND CORPORATE STRUCTURE

— *Transfer of Everbest Investment Haian's equity interest in our Company to Everbest Environmental*

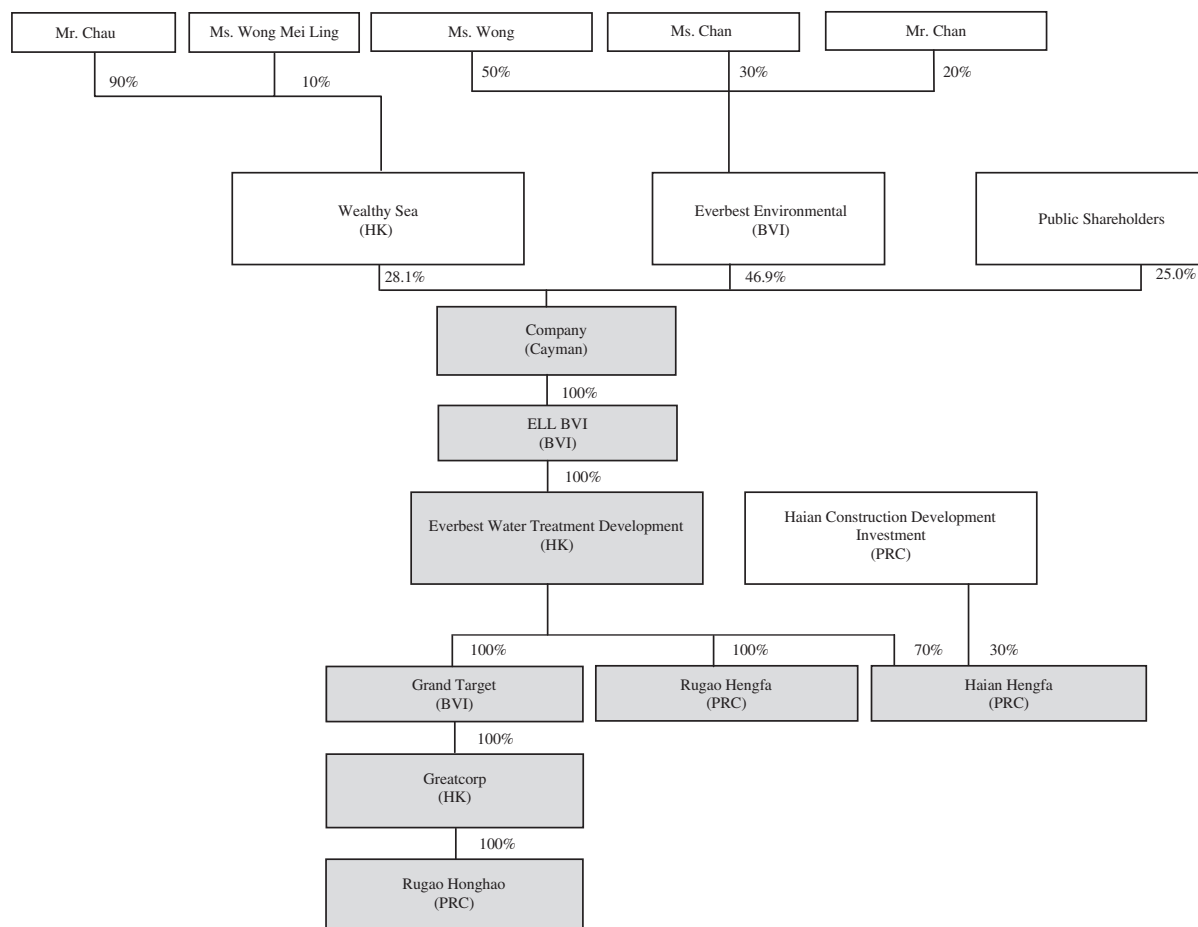
On 25 February 2014, Everbest Investment Haian transferred all the Shares it held in our Company to Everbest Environmental, which was held by Ms. Wong as to 50%, Ms. Chan as to 30% and Mr. Chan as to 20%, for cash consideration at par value. The transfer of Shares was completed and the consideration was settled in full on 25 February 2014. Immediately upon completion of the transfer, Everbest Environmental held 62.5% of the total issued capital of our Company.

The following chart shows the shareholding structure and corporate structure of our Group following the completion of the Reorganisation and prior to the Share Offer:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Immediately following the completion of the Share Offer, the shareholding structure and corporate structure of our Group will be as follows:



LEGAL COMPLIANCE

We were advised by our PRC legal advisers that we had obtained all the requisite approvals, permits and licences for the Reorganisation and that the Reorganisation is compliant with the applicable laws and regulations in the PRC for the Listing. Please refer to the section headed “Regulatory Overview — Approvals Required for Reorganisation and Listing” in this prospectus for details.

BUSINESS

OVERVIEW

We are a wastewater treatment services provider with three wastewater treatment facilities in Jiangsu Province, China. We offer a one-stop approach to the provision of wastewater treatment services using the “Build — Operate — Transfer” (or BOT) model. We cover the whole spectrum of activities from the design of wastewater treatment facilities, through the procurement of suitable equipment and materials, to the supervision of their construction as well as the on-going operation and maintenance of the facilities throughout long-term concession periods. Our projects capability can be adapted to suit the specific nature and requirements of our customers, who are a local government authority and a local government administrative committee in Nantong City, Jiangsu Province, China, the region in which we operate.

As at the Latest Practicable Date, we had three wastewater treatment facilities in operation, all of which are at a relatively early stage in their respective concession periods. The number of years for the concession periods of the various phases of our facilities, as extended by the respective supplemental BOT agreements, range from 22.5 to 34 years.

We originally started our business as a provider of municipal wastewater treatment services. Our first wastewater treatment facility, the Haian Hengfa Facility, commenced operations in 2005 and provides municipal wastewater treatment services to the residents of Haian County, Nantong City, Jiangsu Province. Under the BOT agreement for the Haian Hengfa Facility, our customer is the Haian County Construction Bureau, a local government authority under the People’s Government of Haian County, despite the fact that the Haian County residents are the end-users of our wastewater treatment services. By 2009, we expanded the facility and doubled our constructed wastewater treatment capacity of the Haian Hengfa Facility to 40,000 tons per day.

The Haian Hengfa Facility has served as a model for our two wastewater treatment facilities, the Rugao Hengfa Facility and the Rugao Honghao Facility. Both facilities are located in the Rugao ETDZ, an economic and technological development zone that adopted policies to specifically attract investment from high-tech industries and was elevated to the state-level in January 2013. Similar to the Haian Hengfa Facility, our customer for these two wastewater treatment facilities under the their relevant BOT agreements is the Rugao ETDZ Administrative Committee, a local government administrative committee under the People’s Government of Rugao City, Jiangsu Province. The Rugao Hengfa Facility commenced operations in February 2007 and we were able to treat a mixture of municipal and industrial wastewater discharged by both the residents living nearby as well as the factories operating in the Rugao ETDZ. Likewise with the Haian Hengfa Facility, we expanded the Rugao Hengfa Facility to double its constructed wastewater treatment capacity to 40,000 tons per day in May 2010. The Rugao Honghao Facility, our third and most recent wastewater treatment facility, was acquired by our Group in February 2013. The Rugao Honghao Facility commenced commercial operations in January 2012 and was designed specifically to treat heavy metal wastewater discharged by factories operating in the Rugao ETDZ. The acquisition of this project marked a milestone in our expansion from the relatively straightforward treatment of municipal wastewater, through industrial wastewater, to the treatment of more heavily contaminated industrial wastewater containing water-soluble heavy metals.

BUSINESS

We believe our focus is aligned with China's economical development. China's economy depends mainly on industrial activities, which contributed 45% to 48% of GDP of the country over the past two decades. Some of the fastest growing industries in China are water-intensive in nature. Hence, the opportunities for industrial wastewater treatment facilities within these industries are enormous. Furthermore, the PRC government has poured an increasing amount of capital into the wastewater treatment industry over the past two decades. The official investment budget as noted in the country's 12th Five-Year Plan to develop wastewater treatment facilities in 2011 to 2015 was RMB430.0 billion, which represents an increase of more than 14.4% from RMB376 billion spent from 2006 to 2010. More specifically, Jiangsu Province is a region which has experienced continued urbanisation and industrialisation over the last five years. This is set to continue and consequently demand for our wastewater treatment services is expected to grow.

For the reasons set out in the paragraph headed "Competitive Strengths — Well-positioned to benefit from the PRC government's increasing focus on environmental protection as well as the implementation of favourable government policies" in this section, we expect the demand for wastewater treatment services in the PRC to increase on a long-term basis and believe that we are well-positioned to capitalise on opportunities as they arise based on our experience from operating three wastewater treatment facilities in Jiangsu Province. Furthermore, for the reasons set out in the paragraph headed "Competitive Strengths — Guaranteed tariffs and town planning protect us from fluctuations in the supply of wastewater provided to our wastewater treatment facilities" in this section, we believe our financial position is well insulated from potential fluctuations in the volume of wastewater supplied to our wastewater treatment facilities. Going forward, we intend to expand our operations and capture more project opportunities by capitalising on our growing expertise and our track record of successfully operating three wastewater treatment facilities in Jiangsu Province. We will seek to participate in new wastewater treatment opportunities in the PRC as they arise, provided that such projects meet our Group's stringent market-driven and return-focused criteria in relation to prospective profitability, favourability of concession terms, credit worthiness and funding source of the potential customer, engineering and technical requirements and other key factors.

During the years ended 31 December 2011, 2012 and 2013, our total revenue grew from approximately HK\$44.6 million in 2011 to approximately HK\$46.9 million in 2012 and to approximately HK\$65.1 million in 2013, representing a CAGR of approximately 20.9%. Our total revenue grew from approximately HK\$25.0 million for the five months ended 31 May 2013 to HK\$35.5 million for the five months ended 31 May 2014, representing an increase of approximately 42.2%. Please refer to the section headed "Financial Information — Review of Historical Operational Results — Revenue" in this prospectus for details.

COMPETITIVE STRENGTHS

We believe the following competitive strengths distinguished us from our competitors in the growing wastewater treatment industry in Jiangsu Province, China.

Experience and proven track record in providing customised and integrated wastewater treatment services in Jiangsu Province

We provide an array of customised and integrated wastewater treatment services covering the entire value chain, including design, construction management, procurement as well as operation and

BUSINESS

maintenance. We have gained substantial knowledge, techniques and wastewater treatment knowhow through our experience of providing a wide range of customised solutions, ranging from the treatment of basic municipal wastewater to the treatment of combinations of municipal and industrial effluent, and since February 2013, heavy metal wastewater.

We believe that we were amongst the earliest wastewater treatment operators in Nantong City and have built up a network of reliable suppliers and contractors. Our network enables us to plan procurement, appoint suitable contractors and source the necessary equipment and raw materials while containing costs. As a result of our project management experience, we believe that we are able to provide customised services in a timely and cost-effective manner.

Providing reliable and quality wastewater treatment services has been our core value. Through a combination of our abovementioned qualities, we believe that we are able to provide wastewater treatment services that meet the increasing stringent environmental requirements and standards in China. Since the commencement of our wastewater treatment operations and as at the Latest Practicable Date, there had never been any instances where any of our facilities had been fined or asked to cease operations by the local government authorities or the local environmental protection bureaus due to our inability to meet the required wastewater treatment quality standards. Furthermore, there had not been any instances where any of our facilities had been ordered to shut down its operations due to the incompetence or negligence of our management.

Based on the above, we believe we have the requisite experience and proven track record to seize future business opportunities and grow our wastewater treatment operations based on our experience from operating three wastewater treatment facilities in Jiangsu Province.

Early mover in the wastewater treatment industry in Nantong City, Jiangsu Province

We believe that we were amongst the earliest providers of customised and integrated wastewater treatment services in Nantong City, Jiangsu Province. The early start in this growing industry has allowed us to develop into an experienced provider of wastewater treatment services. We commenced construction of our first wastewater treatment facility in May 2003 after communication with the local government authorities in Haian County. Subsequently, we were approached by the local government administrative committee in the neighbouring Rugao City to design, build and operate a municipal and industrial wastewater treatment facility in the Rugao ETDZ. Within four years of completing the first phase of our second facility, we were again invited by such committee in Rugao City to establish a heavy metal wastewater treatment facility in the Rugao ETDZ.

We believe that potential competitors entering the wastewater treatment market in Jiangsu Province will face high entry barriers to compete with us, especially in the regions where we operate. Wastewater treatment is an essential part of town planning. Our three existing wastewater treatment facilities were a part of the local governments' town planning schemes, forming an integral part of their public infrastructure. We believe it is highly unlikely that our existing customers would engage another project company to provide wastewater treatment services for the same regions, given that (i) our existing BOT agreements do not expressly grant any termination rights to them, (ii) they would need to continue to pay a significant portion of wastewater treatment fees to us pursuant to the existing BOT agreements even if insufficient wastewater is supplied to our facilities for treatment, (iii) they

BUSINESS

would end up incurring additional significant and unnecessary costs to build up or change the current infrastructure to supply wastewater to any new facility operated by another project company, and (iv) the new project company would need to incur substantial investment costs to construct the new facilities and procure additional equipment, all of which extra costs would need to be factored into the wastewater treatment fees payable by the local government authorities or administrative committees.

Therefore, we believe that if the local government authorities or administrative committees in Haian County and/or Rugao City intend to increase the wastewater treatment capacities in their respective regions, they would most likely approach us and ask us to expand our existing facilities instead of inviting a competitor to build a new facility to compete with our facilities. This was the approach followed by the relevant local government authorities when both the Haian Hengfa Facility and the Rugao Hengfa Facility were expanded. As such, we believe we have strengthened our foothold in the regions where we are already operating, allowing us to consolidate our working relationships with the local government, and give us a notable competitive edge within such regions.

Well-positioned to benefit from the PRC government's increasing focus on environmental protection as well as the implementation of favourable government policies

We believe the demand for wastewater treatment services will increase in the near future as the PRC government plans to ramp up investments in environmental protection. The PRC government's 12th Five-Year Plan seeks to invest approximately RMB3.4 trillion in environmental protection between 2011 and 2015, including investments in wastewater treatment and related infrastructure. Accordingly, we anticipate that the PRC government will continually raise environmental regulatory requirements over time, including the standard of quality of wastewater treatment as China continues to develop. The government is already becoming increasingly more active in enforcing compliance with relevant environmental regulations, conducting more frequent inspections and shutting down companies that consistently fail to meet the required standards. Furthermore, China's continued industrialisation and accelerating urbanisation also amplify the need for more wastewater treatment services as most municipalities and manufacturing hubs will require such services to comply with national environmental policies. With our superior understanding of the local government authorities and the regulatory environment in the regions in which we operate, our proven project execution capability and experience as well as the reliability and stability of our wastewater treatment services, we believe that we are well positioned to benefit from such favourable governmental policies.

Strong working relationships with local government authorities and administrative committees in Jiangsu Province

We have worked closely with the local government in the regions where we operate and have established good working relationships with them. We believe that such relationships are important despite the fact that BOT projects are required to be awarded by the local government authorities or administrative committees through an open tender process. Having long-term working relationships with the relevant authorities fosters greater mutual understanding which in turn, enables them to better understand our capabilities as well as gives us the ability to better identify their needs and

BUSINESS

requirements. Our track record of stable operation of our facilities also gives the local government confidence in our expertise and capability. We believe that our good working relationships with the local government will give us a competitive edge when bidding for BOT projects in the Rugao ETDZ as well as Haian County.

Local government authorities and administrative committees are responsible for the development in their respective regions. Closer and stronger working relationships with such authorities or committees keep us updated of the latest developments and shifts in government policies which allows us to plan and implement our business strategies earlier than our competitors. In addition, such relationships facilitate and smoothen the process of obtaining the necessary approvals and permits when needed, enabling us to increase the efficiency of our operations. We also believe that these relationships improve our chances of capturing future business by enhancing our reputation and providing a valuable reference for prospective project tenders.

Guaranteed tariffs and town planning protect us from fluctuations in the supply of wastewater provided to our wastewater treatment facilities

Our wastewater treatment facilities are public infrastructure projects and we expect to receive stable amounts of income over the lifetime of their respective concession periods. Although such projects typically require significant amounts of initial capital investment and their revenue depends to a certain degree on the volume of wastewater treated, each of our BOT agreements includes a guaranteed tariff which is calculated based on the agreed maximum capacity of the respective wastewater treatment facility rather than the actual volume of wastewater treated. This tariff effectively ensures that regardless of the actual volume of wastewater treated by our facilities, which may fluctuate or fall short of the agreed maximum capacity from time to time, we are guaranteed a minimum amount of income to help us recover our investment costs as well as lower our investment risks. In addition, if necessary and upon the consent of our customers, our wastewater treatment tariff can be adjusted upwards under certain circumstances, such as increases in wastewater treatment costs due to substantial increases in commodity prices or the raising of wastewater treatment standards by PRC state policy. Please refer to the paragraph headed “Key Contractual Terms of our BOT Agreements” in this section for details.

We work together with our customers to construct wastewater treatment facilities that fulfil their specific requirements with an aim to provide us with a commercially sensible return for our Group. The construction of our three existing wastewater treatment facilities were designed to be integral parts of the public infrastructure in the local town planning schemes. The constructed wastewater treatment capacity of each facility was determined pursuant to feasibility studies. Furthermore, in the event that the wastewater supply in these areas increases in the future, we believe it is likely that the local government authorities or administrative committees will enter into negotiations with us to increase the wastewater treatment capacity of our facilities, which may also adjust our existing pricing as evidenced by the way in which the expansion of the Rugao Hengfa Facility was carried out.

BUSINESS

Due to the abovementioned reasons, we believe the guaranteed tariffs and the inclusion of our wastewater treatment facilities in our customer's respective town planning schemes and urbanisation plans give us a guaranteed amount of income regardless of the actual volume of wastewater treated and thereby protect our financial position from material fluctuations in the supply of wastewater provided to our wastewater treatment facilities.

Our management team is experienced and stable, with extensive industry knowledge and an in-depth understanding of our operations based on our experience from operating three wastewater treatment facilities in Jiangsu Province

We have an experienced and stable management team with diverse backgrounds and substantial experience in the wastewater treatment industry. Our senior management team is headed by Mr. Chan, Mr. Zhou Yinbing and Mr. Wang Zili, each of whom has at least seven years of experience in the wastewater treatment industry in China. We have generally been able to retain the core members of our management team since our inception.

We believe the extensive managerial experience and broad knowledge of the wastewater treatment industry which our management team possesses is crucial to the continued implementation of our growth plans and business strategies in a cost-effective and efficient manner based on our experience in operating three wastewater treatment facilities in Jiangsu Province. We believe that the sound management, execution capabilities and effective cost management of our management team are evidenced by our steady growth.

BUSINESS STRATEGIES

We seek to enhance shareholder value by strengthening our market position and strategically growing our business in the wastewater treatment industry. The strategies that we have adopted to achieve this goal include the following:

Strengthen our market position in Jiangsu Province through obtaining new wastewater treatment projects

In tandem with China's rapid economic growth and increasingly stringent environmental standards, we believe we have the necessary technical expertise and project management experience to capitalise in the growing wastewater treatment industry. We intend to strengthen our market position in Jiangsu Province through obtaining new wastewater treatment projects by leveraging our track record and close working relationships with the local government authorities, thereby steadily expanding our operations. We will target regions that we believe to have an increasing demand for wastewater treatment services and offer attractive returns such as developing municipalities and industrial parks. Concurrently, we will continue to build on our existing working relationships with local government authorities to better understand the latest developments in their environmental and economic plans. It is our belief that such long-term working relationships with the local government authorities put us in a better position to tender for future wastewater treatment projects.

BUSINESS

Upgrade our existing wastewater treatment facilities

In order to meet the higher discharge and operation standards required by the local government of Haian County and Rugao City, respectively, as set out in their respective notices issued in 2013, (i) we started upgrading the Haian Hengfa Facility in March 2014 and expect to complete the upgrade by September 2014, and (ii) we expect to commence upgrading the Rugao Hengfa Facility in September 2014 and expect to complete the upgrade by December 2014. Please refer to the paragraph headed “Project Financing” in this section and the sections headed “Regulatory Overview — Water Quality” and “Business — Legal and Regulatory Compliance” in this prospectus for details. We believe that these upgrades, as well as any future upgrades that we undertake at our own discretion or in compliance with any new PRC government’s policies, will allow us to improve our wastewater treatment capabilities and hence, further enhance our competitiveness in the regions where we are already operating and improve our chances of securing future wastewater treatment projects.

Pursue selective strategic acquisitions, joint ventures, partnerships and other opportunities

While our key focus is to strengthen and develop our wastewater treatment business in Jiangsu Province, we intend to opportunistically pursue strategic acquisitions, joint ventures, partnerships and other opportunities in wastewater treatment and other environmental protection projects in and outside China. Given the general rising environmental standards and increasing demand for wastewater treatment and environmental protection solutions, we believe there will be suitable opportunities for us to enhance our competitiveness and market position in our existing markets or contribute to our expansion into other environmental projects. We will adopt a strict and disciplined approach when pursuing any new opportunities. In addition to applying our careful project selection criteria, which take into account key factors such as profitability, growth potential and technical requirements, we will ensure that (i) we will only pursue such opportunities if they are in the best interest of our Shareholders, and (ii) we have or are able to employ the necessary personnel with the appropriate experience and expertise to execute the projects. As at the Latest Practicable Date, we had not identified any potential opportunities for tendering or for acquisition.

DETAILS OF OUR WASTEWATER TREATMENT FACILITIES

The table below sets out a summary of our three wastewater treatment facilities:

Project	General				Concession Period (as extended by the respective supplemental BOT agreement, where applicable)			Wastewater Treatment	
	Location (in Jiangsu Province)	Total Investment up to 31 May 2014 (approximate HK\$ million)	Our Equity Interest in the Project	Type of Wastewater Treated during the Track Record Period	Initial Commencement Date	Duration and Expiry Date of the Concession Period	Total Constructed Capacity as at 31 May 2014 (tons per day)	Volume of Wastewater Treated (tons) ⁽¹⁾	Utilisation Rate ⁽²⁾
Haian Hengfa Municipal Wastewater Treatment Facility	Haian County, Nantong City	Phase I: 21.8 Phase II: 42.0 Upgrade works commenced in March 2014; 4.3	70% ⁽¹⁾	Municipal	Phase I: 18 December 2002 Phase II: 26 November 2013 ⁽²⁾	Phase I: initially for 28 years, and subsequently extended to 34 years to expire on 25 May 2036 Phase II: 22.5 years, to expire on 25 May 2036	40,000 ⁽²⁾	8,958,904 (2011) 8,730,983 (2012) 9,341,505 (2013) 3,504,678 (first five months of 2014)	61.4% (2011) 59.9% (2012) 64.0% (2013) 58.0% (first five months of 2014)
Rugao Hengfa Municipal and Industrial Wastewater Treatment Facility	Rugao ETDZ, Rugao City	Phase I: 28.9 Phase II: 61.0 Improvement works carried out in January 2014; 2.0	100%	Municipal and Industrial	Phase I: 7 February 2007 Phase II: 29 April 2010	Phase I: initially for 25 years, and subsequently extended to 28 years to expire on 28 April 2035 Phase II: 25 years, to expire on 28 April 2035	40,000	5,062,383 (2011) 7,018,000 (2012) 7,697,505 (2013) 3,167,794 (first five months of 2014)	34.7% (2011) 48.1% (2012) 52.7% (2013) 52.4% (first five months of 2014)
Rugao Honghao Heavy Metal Wastewater Treatment Facility	Rugao ETDZ, Rugao City	62.6	100%	Heavy Metal	15 November 2011	28 years, to expire on 14 November 2039	3,500	— (2011) 14,950 (2012) 25,672 (2013) 18,682 (first five months of 2014)	— (2011) 1.2% (2012) 2.0% (2013) 3.5% (first five months of 2014) ⁽⁵⁾

Notes:

- Pursuant to the BOT agreement dated 25 September 2002 between the Haian County Construction Bureau and us, the remaining 30% of the equity interest is owned by the Haian Construction Development Investment, which is wholly-owned by Haian County Government Office of State Owned Assets Supervision and Management (海安縣政府國有資產監督管理辦公室).
- Phase II of the Haian Hengfa Facility actually began commercial operation prior to the Track Record Period, but due to protracted negotiations with the Haian County Construction Bureau, a BOT agreement officially recognising phase II of the Haian Hengfa Facility was not signed until 26 November 2013. Accordingly, the utilisation rate of the Haian Hengfa Facility was calculated based on the actual constructed capacity of 40,000 tons throughout the Track Record Period. According to the confirmation from Haian County Construction Bureau, the minimum guaranteed tariff for the Haian Hengfa Facility have been calculated based on an agreed maximum capacity of 40,000 tons per day from 4 January 2014 onwards. For further details regarding the legality and ownership of phase II of Haian Hengfa Facility, please refer to the paragraph headed "Real Property — Properties Occupied by our Group under the BOT Agreements — Note (1)" in this section.
- The volume of wastewater treated by the Haian Hengfa Facility decreased by approximately 2.4% in 2012 and increased by approximately 6.9% in 2013. For the five months ended 31 May 2014, the volume of wastewater treated by the Haian Hengfa Facility was approximately 37.5% of the total volume treated by the facility in 2013. The volume of wastewater treated by the Rugao Hengfa Facility increased by 38.6% in 2012 and 9.7% in 2013. For the five months ended 31 May 2014, the volume of wastewater treated by the Rugao Hengfa Facility was approximately 41.2% of the total volume treated by the facility in 2013. The aforesaid fluctuations in volume of wastewater treated were caused by the fluctuation in the volume of wastewater supplied to us by our customers, which we have no control over. Our Directors confirmed that the fluctuation of the volume of wastewater treated by our wastewater treatment facilities during the Track Record Period was due to the different amounts of wastewater supplied to us for treatment and was not because of any material disruption to our operations. The Rugao Honghao Facility was not yet commercially operational in 2011, therefore the volume of wastewater treated by the Rugao Honghao Facility was nil for 2011. The Rugao Honghao Facility commenced commercial operations in 2012, but it was only acquired by our Group in February 2013. For the five months ended 31 May 2014, the volume of wastewater treated by the Rugao Honghao Facility was approximately 72.8% of the total volume treated by the facility in 2013. The increasing trend of volume of wastewater treated by the Rugao Honghao Facility in the first five months of 2014 was caused by the increase in the volume of wastewater supplied to us by our customers, which we have no control over.
- Determined (i) by dividing the volume of wastewater treated by the total constructed capacity per day multiplied by 365 days for 2011, 2012 and 2013, and (ii) by dividing the volume of wastewater treated by the total constructed capacity per day multiplied by 151 days for the first five months of 2014.
- The utilisation rate of the Rugao Honghao Facility was low as the local government had not been able to supply sufficient wastewater to the Rugao Honghao Facility for treatment. For more details regarding the low supply of wastewater to the Rugao Honghao Facility, please refer to the paragraphs headed "Competitive Strengths — Guaranteed tariffs and town planning protect us from fluctuations in the supply of wastewater provided to our wastewater treatment facilities" and "Details of Our Wastewater Treatment Facilities — Rugao Honghao Facility — Low utilisation rate" in this section.

BUSINESS

Set out below are details of our three wastewater treatment facilities as at the Latest Practicable Date. The total investment amounts referred to in the descriptions below primarily represent our cost of construction.

Haian Hengfa Facility

This project involved the design, construction and operation of a municipal wastewater treatment facility that was expanded into phase II, with a combined constructed wastewater treatment capacity of 40,000 tons per day.

<i>Project Location</i>	Haian County, Nantong City, Jiangsu Province, China
<i>Project Company</i>	Haian Hengfa
<i>Wastewater Treatment Type</i>	Municipal wastewater
<i>Total Investment Amount up to 31 May 2014</i>	Approximately HK\$21.8 million (Phase I)
	Approximately HK\$42.0 million (Phase II)
	Approximately HK\$4.3 million (Upgrade works commenced in March 2014)
<i>Initial Commencement</i>	Phase I: 18 December 2002
<i>Date of Concession Period</i>	Phase II: 26 November 2013 ⁽¹⁾
<i>Highlights</i>	This was our first wastewater treatment project and employs CAST and CASS in phase I and phase II, respectively

Note:

(1) Construction of the phase II of the Haian Hengfa Facility was completed in October 2009.

Treatment of municipal wastewater

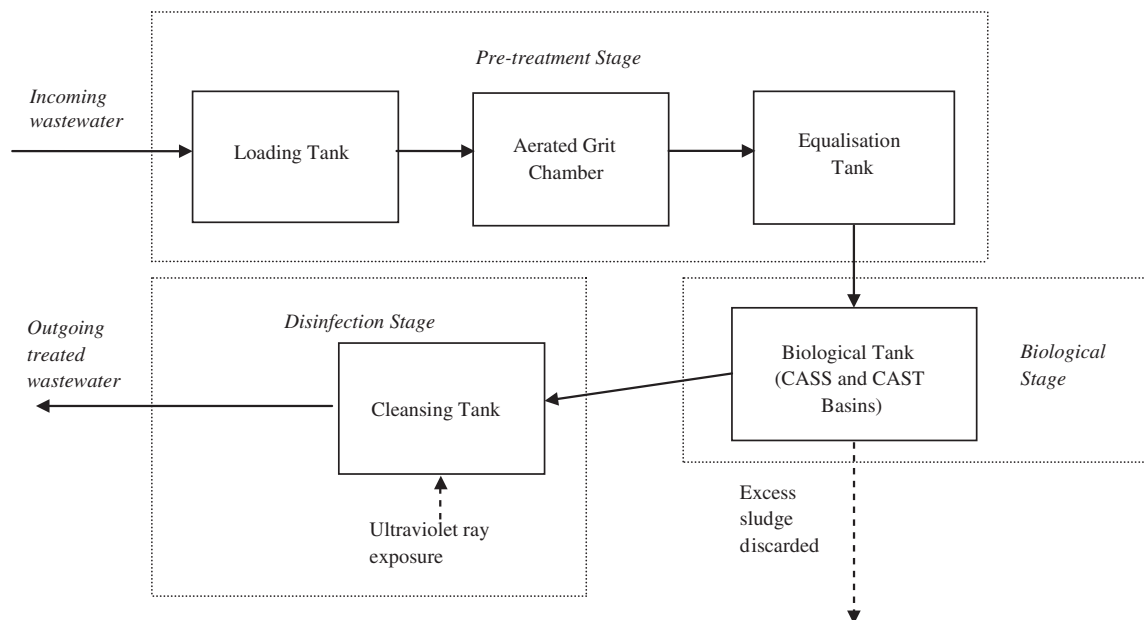
The Haian Hengfa Facility currently only treats municipal wastewater discharged from Haian County. Municipal wastewater typically contains high concentrations of nitrogen and phosphorus as well as suspended solids and other organic compounds. Consequently, the treatment process at the Haian Hengfa Facility is designed to optimise the exposure of wastewater to microorganisms. The process generally consists of three stages whereby wastewater is pre-treated, subjected to biological reactions and then disinfected.

BUSINESS

The process first begins with the wastewater being filtered for coarse materials and other non-soluble particles by pumping the wastewater through a series of different sized screens fitted throughout the loading tank. Next, the wastewater is transferred to an aerated grit chamber where heavier particles are separated. Subsequently, the wastewater flows into an equalisation tank where it is further homogenised. The homogenised wastewater then enters the biological tank which is comprised of several CAST and CASS basins arranged in parallel. In the CASS and CAST basins, the wastewater mixes with microorganisms that feed on the organic pollutants in the wastewater and is aerated by micro-porous diffusers to help promote microorganism growth. Aeration is shut off at fixed intervals to allow the flocculate to settle and a surface-skimming decanter is used to skim off the treated effluent floating on the wastewater surface. These processes in the biological tank are repeated in sequence and the settled-flocculate is discarded as sludge as it accumulates. The sludge is treated to remove moisture and is then disposed of by third party contractors.

Since municipal wastewater tends not to contain toxic industrial chemicals, no chemical tank for chemical reactions is needed and the decanted wastewater is pumped directly into the cleansing tank for disinfection. During this stage, the wastewater is exposed to strong ultraviolet light from panels installed along the walls of the cleansing tank which is commonly used to disinfect wastewater. The wastewater is subsequently discharged into the environment. The entire wastewater treatment process described above takes on average 21 hours to complete.

Below is a flowchart illustration of the Haian Hengfa Facility's treatment process:



BUSINESS

Rugao Hengfa Facility

This project involved the design, construction and operation of a wastewater treatment facility that was expanded into phase II, with a combined constructed wastewater treatment capacity of 40,000 tons per day. Its treatment process features technology designed to treat a mixture of municipal and industrial wastewater.

<i>Project Location</i>	Rugao ETDZ, Rugao City, Nantong City, Jiangsu Province, China
<i>Project Company</i>	Rugao Hengfa
<i>Wastewater Treatment Type</i>	Municipal and industrial wastewater
<i>Total Investment Amount up to 31 May 2014</i>	Approximately HK\$28.9 million (Phase I) Approximately HK\$61.0 million (Phase II) Approximately HK\$2.0 million (Improvement works carried out in January 2014)
<i>Initial Commencement</i>	Phase I: 7 February 2007
<i>Date of Concession Period</i>	Phase II: 29 April 2010
<i>Highlights</i>	This is our first integrated wastewater treatment facility that has the capability of treating a mixture of municipal and industrial wastewater

Treatment of municipal and industrial wastewater

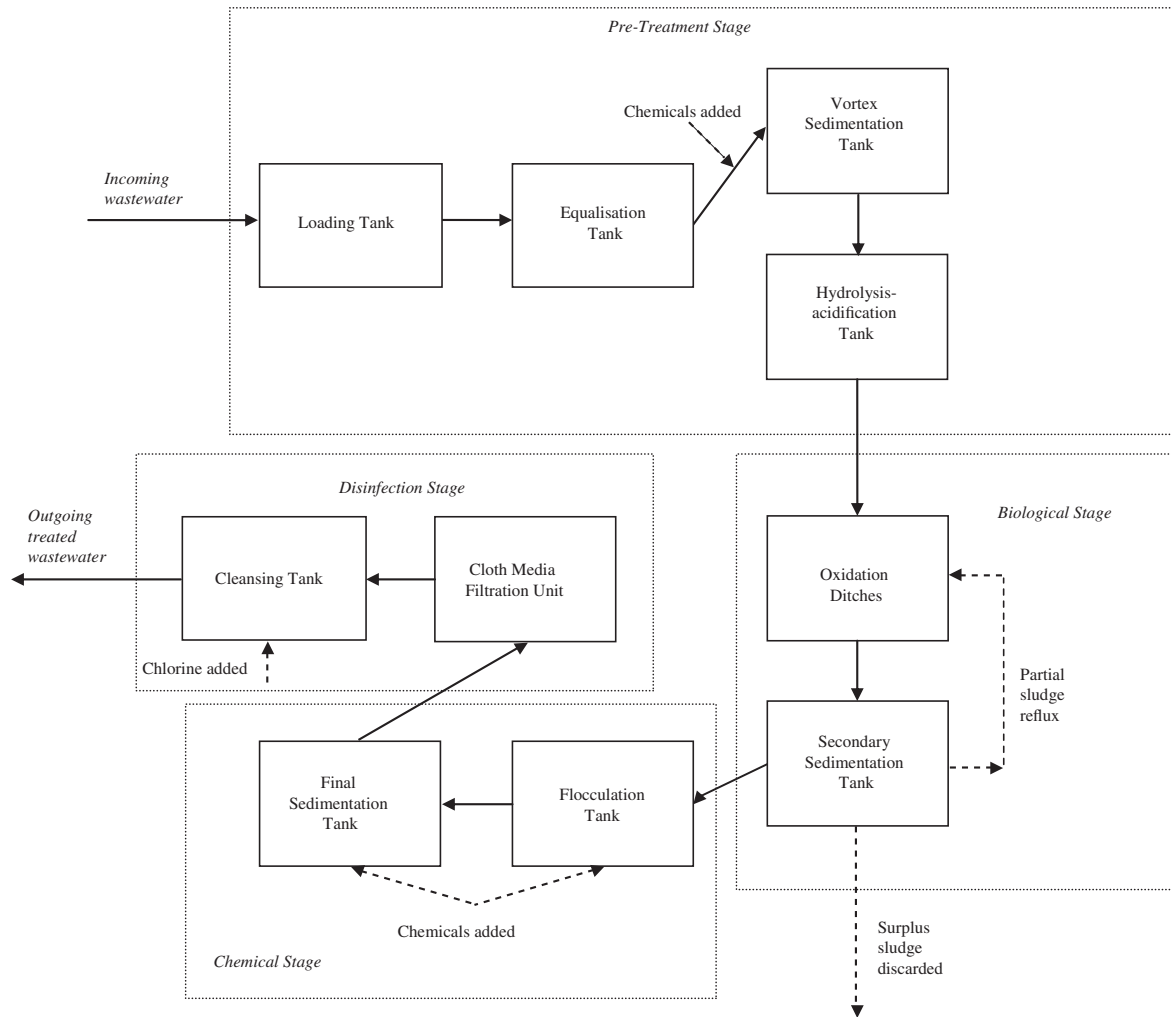
Wastewater treated by the Rugao Hengfa Facility comprises both municipal and industrial wastewater discharged from Rugao ETDZ. To deal with the added industrial effluent, chemical agents are introduced early in the process to facilitate the precipitation of industrial compounds. The process generally consists of four stages whereby wastewater is pre-treated with chemicals, before being subjected to biological reactions, chemical reactions and disinfection.

Similar to the Haian Hengfa Facility, wastewater entering the Rugao Hengfa Facility is collected in the loading tank where it is filtered and allowed to sediment. However, before entering the biological stage, the wastewater flow is first equalised in an equalisation tank and chemicals are added to assist with sedimentation. The wastewater is then processed in a vortex sedimentation tank to remove small particles and grit from the wastewater and passed through a hydrolysis-acidification tank to help breakdown insoluble industrial components that may be contained in the wastewater. The processed wastewater then flows into oxidation ditches where it mixes with sludge that contains microorganisms, which in turn feed on the organic pollutants in the wastewater. Subsequently, the wastewater is then pumped into flocculation and final sedimentation tanks in sequence through a series of solid-liquid separation compartments, which remove sludge from the treated effluent, after which chemicals are added to treat inorganic compounds. During this process, some of the removed sludge

BUSINESS

is refluxed back into the oxidation ditches to maintain overall microorganism activity while the remaining sludge is discarded, treated to remove moisture and then disposed of by third party contractors. The resulting effluent then enters the cleansing tank for disinfection. In this last stage, the wastewater is disinfected with chlorine, before finally being released into the environment. The entire wastewater treatment process described above takes on average 40 hours to complete.

Below is a flowchart illustration of the Rugao Hengfa Facility's treatment process:



BUSINESS

Rugao Honghao Facility

This project involved the operation of a wastewater treatment facility⁽²⁾ with a constructed capacity of 3,500 tons per day. The treatment process features technology designed to treat various types of water-soluble heavy metals.

<i>Project Location</i>	Rugao ETDZ, Rugao City, Nantong City, Jiangsu Province, China
<i>Project Company</i>	Rugao Honghao
<i>Wastewater Treatment Type</i>	Heavy metal wastewater
<i>Total Investment Amount up to 31 May 2014</i>	Approximately HK\$62.6 million
<i>Initial Commencement Date of Concession Period</i>	15 November 2011 ⁽¹⁾⁽²⁾
<i>Highlights</i>	Our acquisition of this facility marks our expansion into the treatment of heavy metal wastewater. This facility requires a specialised chemical treatment process but typically provides higher profit margins in comparison to municipal and industrial wastewater treatment

Notes:

- (1) The Rugao Honghao Facility became commercially operational in January 2012.
- (2) The Rugao Honghao Facility was only acquired by our Group in February 2013 (details of the acquisition are set out in the section headed “History, Reorganisation and Corporate Structure” in this prospectus) and thus we were not involved in the design and construction of this project.

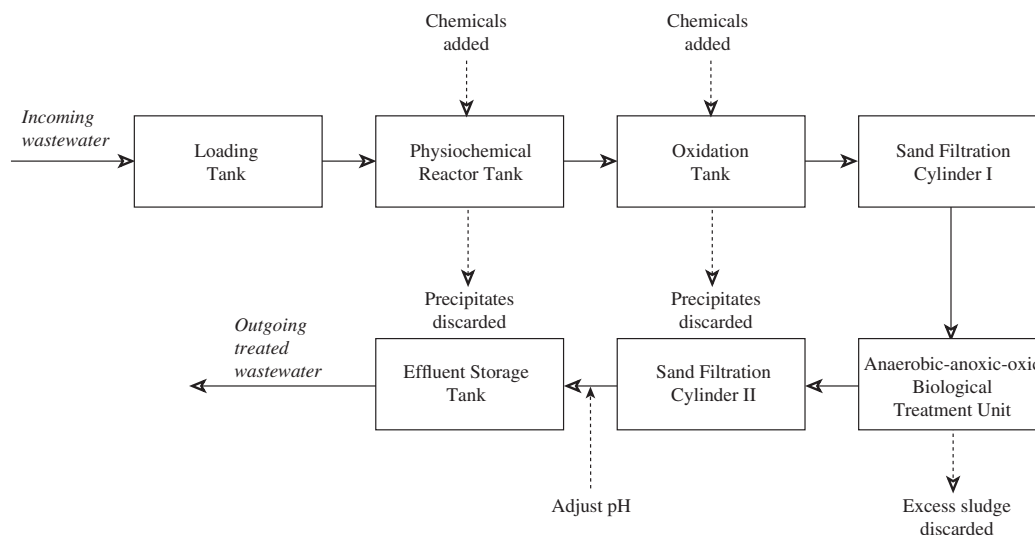
Treatment of heavy metal wastewater

The Rugao Honghao Facility only treats heavy metal wastewater discharged from the factories operating in the Rugao ETDZ. The wastewater treated by the Rugao Honghao Facility primarily consists of water-soluble heavy metals such as copper, nickel, chromium and zinc. The treatment process is different depending on the chemical properties of the pollutants in the wastewater and must be applied through varying sequences of chemical reactions in separate chemical tanks. The treatment process at the Rugao Honghao Facility requires more chemicals than our other two wastewater treatment facilities due to the nature of the wastewater it treats.

Factories operating in the Rugao ETDZ discharge their wastewater into different pipelines based on the type of heavy metal the wastewater contains. Each of these separate wastewater streams flows directly into one of our twelve loading tanks at the Rugao Honghao Facility which are designed specifically to treat the corresponding type of heavy metal. The chemical composition of the wastewater in each loading tank is further analysed and depending on the results, our technicians will

decide what chemicals are required to treat the wastewater, in what order they will be used and under what conditions they are to be applied (such as acidity and temperature). The analysed wastewater is first sent to a physiochemical reactor tank whereby chemicals are added to assist with the flocculation, precipitation and sedimentation of heavy metals. Next, chemicals are added to the wastewater as it is processed in an oxidation tank to breakdown any organic contents contained in the wastewater. The processed wastewater is then sent to a sand filtration cylinder for purification, an anaerobic-anoxic-oxic biological treatment unit to further breakdown organic matter and another sand filtration cylinder for further purification. During this step, some excess sludge is removed from the anaerobic-anoxic-oxic biological treatment unit and disposed of by third party contractors after being treated for moisture. Chemicals are then added to the wastewater to adjust its pH and the pH-adjusted wastewater is then stored in an effluent storage tank before being released into the environment in batches. The precipitates collected throughout the entire process are stored for further handling by a qualified third party contractor for disposal as they are often toxic in nature. The entire wastewater treatment process described above takes on average 69 hours to complete.

Below is a flowchart illustration of the Rugao Honghao Facility's treatment process:



Low utilisation rate

The utilisation rate of the Rugao Honghao Facility was low as the local government had not been able to supply sufficient wastewater to the Rugao Honghao Facility for treatment. The Rugao Honghao Facility was developed as a necessary public utility to receive and treat the wastewater discharged from the electronic, electrical and mechanical manufacturing plants in the Electronic, Electrical and Mechanical Industrial Park (電子電氣及裝備產業園) (the “**EEM Industrial Park**”) in the Rugao ETDZ.

To the best knowledge of our Directors, during the Track Record Period, the development of the EEM Industrial Park was still in its early stages, and the number of factories operating in the EEM Industrial Park was significantly lower than the anticipated number of factories that the constructed capacity of the Rugao Honghao Facility was designed to handle. Our Directors confirmed that there had been no significant disruptions caused to the operations of the Rugao Honghao Facility due to defective equipment during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

We expect the Rugao Honghao Facility to continue complying with the required discharge standards when the EEM Industrial Park further develops as anticipated and enough wastewater containing heavy metal pollutants is supplied to the Rugao Honghao Facility for treatment on the bases that:

- detailed feasibility studies had been carried out for the construction of the Rugao Honghao Facility;
- qualified professionals and contractors were engaged to design the Rugao Honghao Facility with the specific purpose to treat heavy metals wastewater at its constructed capacity;
- we have qualified technicians responsible for analysing the content of the heavy metal wastewater supplied to the Rugao Honghao Facility as well as determining what chemicals should be used to treat such wastewater; and
- we had been able to meet the required discharge standards and the relevant competent authorities had not issued to us any warnings or notices requiring the cessation or suspension of operations at the Rugao Honghao Facility since it began commercial operations in January 2012.

OUR BOT PROJECT MODEL

We use the BOT project model to provide our wastewater treatment services.

Under the BOT project model, the relevant local government authority or administrative committee usually grants the project company a concessionary right to build and then operate the relevant facility for a specific period of time pursuant to a BOT agreement. The land necessary to carry out such operations is typically provided by such local government authority or administrative committee pursuant to the BOT agreement. During the concession period, the project company is normally responsible for designing, constructing, operating and maintaining the facility as well as financing its construction. In return, the project company is granted the exclusive right to carry out certain functions or operations for service payments, which includes a guaranteed minimum tariff regardless of the actual volume of wastewater treated by the respective wastewater treatment facility, essentially guaranteeing a certain level of cash payment from customers. These wastewater treatment fees are calculated to provide a reasonable return with reference to, among other things, the expected cost of construction, the expected cost of maintenance and the wastewater treatment capacity of the facility for the duration of the concession period. Going forward, we aim to acquire new BOT projects to enable our Group to attain such return on equity and return on assets that are comparable to our Group's historical return on equity and return on assets. For details relating to our Group's historical return on equity and return on assets, please refer to the section headed "Financial Information — Major Financial Ratios Analysis" in this prospectus. Upon expiry of the concession period, the project company typically cedes control and rights of use of the facility, its equipment and the land it occupies to the government or another party specified in the BOT agreement for nil consideration.

BUSINESS

The Public Utility Concession Rules and the Competitive Tender Process Requirements

Our PRC legal advisers advised us that according to the Public Utility Concession Rules, public utility authorities are required to award BOT projects through competitive tender processes, which involve public announcements of potential projects through various channels and/or invitations to multiple potential project companies, inviting them to put in a tender. For each of our three BOT projects, we were invited by the relevant local government authority or administrative committee to negotiate a BOT agreement without undergoing competitive tender processes.

Legal implications and rectification

Our PRC legal advisers advised us that with respect to the Public Utility Concession Rules, the relevant rules impose the competitive tender process requirements on the relevant government authorities awarding the BOT projects rather than on the concessionaires of the BOT projects, and do not specify any administrative penalty, or provide for any power by any authority to terminate the concessionary rights of the concessionaire under the relevant executed BOT agreements in the event of contravention of such requirements. As such, our PRC legal advisers advised us that the legal implications to and potential liability for both (i) our customers for failing to award the BOT projects to us through competitive tender processes and (ii) our Group as the concessionaire for having been granted with such BOT projects without undergoing competitive tender processes, are uncertain.

Our PRC legal advisers also advised us that as the required competitive tender processes are organised by the relevant municipal public utility authorities awarding the BOT projects instead of the concessionaires granted with the BOT projects, we are not in a position to rectify or seek clarifications from any appropriate authorities with respect to such non-compliance by our customers. Please also refer to the section headed “Risk Factor — Risks Relating to our Business — We obtained our BOT projects without undergoing any competitive tender process required by the applicable PRC laws and regulations” in this prospectus.

Impact on the validity of our BOT agreements

Notwithstanding the above, our PRC legal advisers advised us, and the PRC legal advisers of the Sponsor and the Sponsor (based on the legal advice of its PRC legal advisers) concur, that the fact that we had obtained the BOT projects without having undergone the required competitive tender processes did not constitute a violation of PRC laws or regulations on our part, and that all of the relevant BOT agreements entered into between our customers and us are legal, valid and binding on the parties thereto, and the likelihood of any of our BOT agreements being invalidated by any competent authority is remote for the following reasons:

- (i) the Public Utility Concession Rules impose the competitive tender process requirements on the relevant local government authority and administrative committee awarding the BOT projects to our Group, rather than on our Group as the concessionaire of the BOT projects, and that the mandatory processes for our BOT projects could only have been organised by such local government authority and administrative committee;

BUSINESS

- (ii) the Public Utility Concession Rules do not specify any administrative penalty for the concessionaire, or provide for any power by authority to terminate the concessionary rights of the concessionaire under the relevant executed BOT agreement in the event of contravention of such requirements;
- (iii) our BOT agreements comply with the requirements of the Contract Law of the PRC (《中華人民共和國合同法》) (the “**PRC Contract Law**”) and the Public Utility Concession Rules did not empower any competent authority to invalidate such executed BOT agreements that were signed without having undergone competitive tender processes. Accordingly, such BOT agreements remain effective, legal, valid, enforceable and binding on their respective parties according to the PRC Contract Law;
- (iv) we have obtained letters issued by the People’s Government of Haian County and Rugao City (being the respective competent authorities and higher authorities to Haian County Construction Bureau and Rugao ETDZ Administrative Committee respectively), which, among other things, acknowledged the BOT agreements signed by Haian County Construction Bureau (in respect of the Haian Hengfa Facility) and Rugao ETDZ Administrative Committee (in respect of the Rugao Hengfa Facility and the Rugao Honghao Facility), respectively, with our Group and acknowledged the concessions we obtained through such BOT agreements; and
- (v) we had not been subject to any administrative penalties in relation to the construction and operation of, and had obtained all of the relevant construction related permits and certificates from the local construction bureaus (including the construction land use planning permits, construction work planning permits, commencement of construction work permits and completion acceptance certificates) for, all of our BOT projects. These permits and certificates evidenced the competent construction authorities’ acknowledgement of the compliance of the construction and completion of the wastewater treatment facilities that comprised our BOT projects with the applicable PRC laws and regulations.

For the reasons discussed above, we have not and do not intend to seek clarification from government authorities for the foregoing contravention of the Public Utility Concession Rules by the relevant local government authority and administrative committee.

We were aware that when the relevant BOT agreements for our projects were entered into, the relevant local government authority and administrative committee had not undertaken competitive tender processes for such projects and therefore, had not fully complied with the Public Utility Concession Rules. According to our PRC legal advisers, our knowledge of the aforementioned legal position at the time when the relevant BOT agreements were entered into would not be a factor for determining the legal implications of the foregoing to our Group or our potential liabilities thereunder.

Tendering for Future Projects

We had not previously obtained any BOT projects through competitive tender. The applicable PRC laws and regulations require local government authorities awarding wastewater treatment projects to consider, among other things, the credentials and qualifications of the bidder, the tender price and the technical design, for relevant wastewater treatment projects, on a case-by-case basis when selecting the appropriate wastewater treatment service provider in competitive tendering processes. As advised by our PRC legal advisers, prior participation in competitive tender processes is not a mandatory criteria of assessment in such tendering processes. Our PRC legal advisers advised us that our PRC incorporated subsidiaries, being corporate entities validly established and existing under the applicable PRC laws and regulations, will be permitted to participate in competitive tender processes for wastewater treatment projects if they meet the specific qualifications and requirements with respect to registered capital, accessibility to appropriate and adequate equipment, personnel and technical knowledge, credit-worthiness, financial condition, industry experience and track record and feasibility of project proposal submitted, that the relevant local government authorities may formulate for such projects on a case-by-case basis, or in accordance with local laws and regulations.

Our Directors believe, and the Sponsor concurs, that our credentials and qualifications in constructing and operating wastewater treatment facilities, which would enable us to obtain future projects through competition tender processes, are supported by the following:

- (i) our track record of successfully constructing and operating three wastewater treatment facilities in Jiangsu Province since 2003;
- (ii) all our awards granted by various local government authorities and committees in Nantong City, Rugao City, Haian County and the Rugao ETDZ, including the Nantong City People's Government, Rugao City People's Government, Haian County People's Government, Haian County Housing and Urban & Rural Construction Bureau and Rugao City Housing and Urban & Rural Construction Bureau and Chinese Communist Party Working Committee of the Rugao ETDZ, since our establishment as detailed in the paragraph headed "Awards" in this section;
- (iii) the Haian County Environmental Protection Bureau and the Rugao City Environmental Protection Bureau, being the competent authorities, provided us with written confirmations that the construction, production and operation of our wastewater treatment facilities had been in compliance with the environmental protection regulations; and
- (iv) during the Track Record Period and up to the Latest Practicable Date, (a) there had been no accident causing injuries owing to the structural safety of all of our wastewater treatment facilities, and (b) we had not received any material warnings or complaints with regard to the quality of our wastewater treatment services.

BUSINESS

Furthermore, as detailed in the paragraph headed “Project Management Process for BOT Projects — Securing BOT Projects” in this section, we carefully select BOT projects. When bidding for future projects, we shall study closely, among other things, the technical requirements needed to properly treat the expected wastewater type, the relevant regulatory specifications, the expected cost of building, operating and maintaining the proposed wastewater treatment facility and growth potential and accordingly, formulate our expected returns. We will leverage on our prior experience and relationship with our suppliers and independent contractors and submit our bids for each specific project target with such tender price and technical design that will, to our belief, ensure the necessary technical requirements will be met and adequate returns will be achieved by our Group. We believe that our long-term working relationships with the local governments in the regions where we operate enable the relevant authorities to better understand our capabilities and give us the ability to better identify their needs and meet their requirements, and therefore give us competitive advantages when bidding for BOT projects in the Rugao ETDZ as well as the Haian County in the future. We believe that closer and stronger working relationships with such authorities also keep us updated of the latest developments and shifts in government policies which allows us to align and implement our business strategies as appropriate ahead of our competitors.

To the best of our Directors’ knowledge and belief, our ability to compete with other wastewater treatment service providers when bidding for any specific wastewater treatment project in the future is not adversely affected by our lack of experience in participating in similar competitive tendering process.

As at the Latest Practicable Date, we had not identified any targets for bidding. In the event our Company identifies and obtains suitable wastewater treatment projects for bidding after Listing, we intend to invest approximately HK\$10.8 million of the net proceeds of the Share Offer (assuming an Offer Price of HK\$0.5, being the mid-point of the Offer Price range stated in this prospectus) for such new wastewater treatment projects and where necessary and subject to the Listing Rules, raise additional funding by issuing equity or debt securities or by borrowing from banks or other sources. Please also refer to the sections headed “Risk Factors — Risks Relating to our Business — We may require substantial funding for our capital intensive and long-term projects” and “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus for details.

Income and Payments

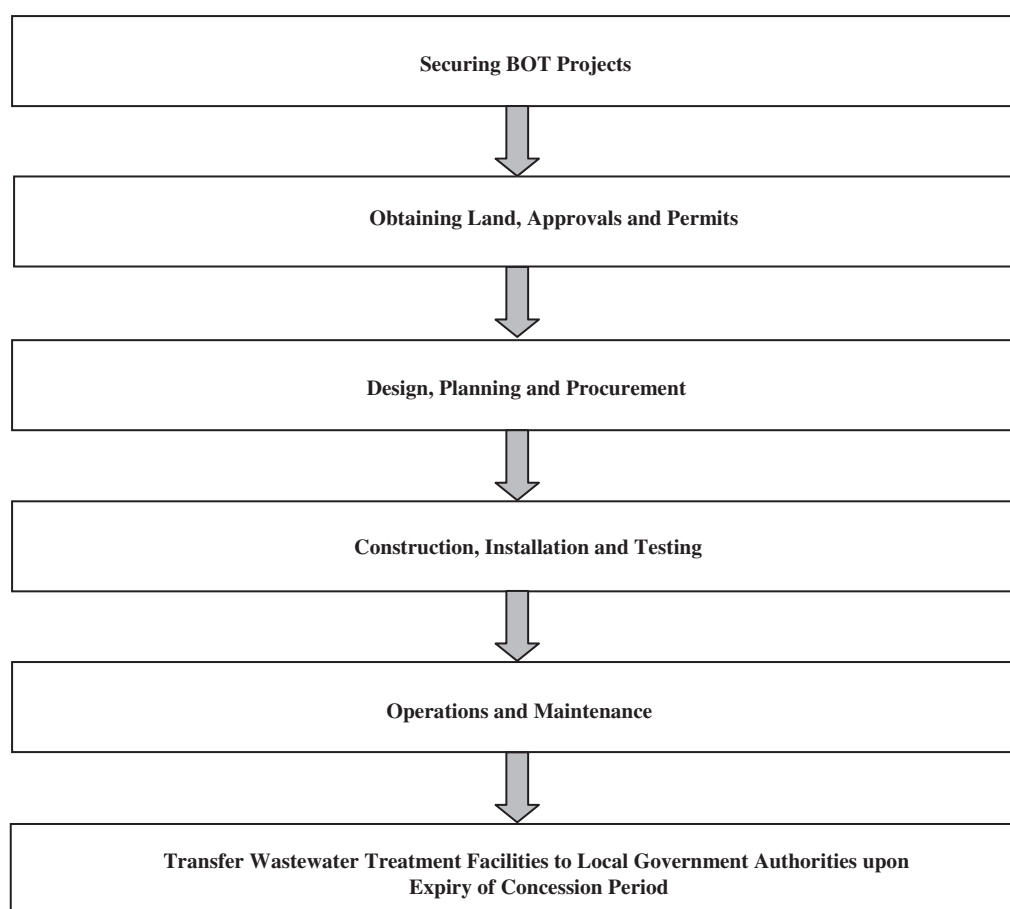
Typically, BOT project companies in the wastewater treatment industry can expect to receive a stable income over the lifetime of a concession period. Under a BOT arrangement, payments are typically received only after the commencement of operations (as opposed to the commencement of construction) and paid on a monthly basis. It is common for BOT arrangements to include a guaranteed minimum volume of wastewater to be treated, regardless of actual volume treated, which essentially guarantees a certain level of payment and helps the operator/granted party to recover its investment as well as lowering its risk. If necessary, the payments can be adjusted according to the price adjustment formula included in the BOT agreement. The factors taken into account for an upward adjustment in tariff are typically similar to those considered when determining the initial level of the tariff, except the local government authorities or administrative committees will typically conduct an assessment of historical operational data of the facility before approval of such adjustments.

PROJECT MANAGEMENT PROCESS FOR BOT PROJECTS

Although BOT projects tend to provide stable returns during the concession period, they require significant amounts of capital investment upfront. Consequently, we carefully select BOT projects by taking into account key factors such as expected profitability and availability of financing when assessing the viability of a potential new project. We use our expertise and experience when evaluating the potential of a project, specifying the facility and equipment, supervising the construction of the facility and then over the life of the concession, ensuring that the facility is operated properly and maintained efficiently.

Our project management process for BOT projects can generally be categorised into the following stages: (i) securing suitable BOT projects; (ii) obtaining land, the necessary approvals and permits; (iii) design, planning and procurement; (iv) construction, installation and testing; (v) operations and maintenance throughout the concession period; and (vi) transfer of the BOT project upon expiry of the concession period. As at the Latest Practicable Date, we were not aware of any material disputes, claims or complaints in relation to the construction or operation of the facilities.

Below is a simplified flowchart which illustrates the main elements of our project management process for BOT projects:



Securing BOT Projects

For each of our existing wastewater treatment projects, we were invited by the relevant local government authority or administrative committee to negotiate a basis on which we would provide wastewater treatment services, and we have never participated in any tender processes to secure wastewater treatment projects during the Track Record Period and up to the Latest Practicable Date. As BOT projects are long-term capital intensive investment projects, careful project selection is a critical part of our business operations. Upon receiving an invitation from such authority or committee and before we entered into negotiations, we took the following factors into consideration for each project:

- our expected returns;
- the potential for growth in end-users likely to require wastewater treatment services;
- the technical requirements needed to properly treat the expected wastewater type as well as other contractual and regulatory specifications;
- the potential customer's credit-worthiness and source of funding;
- the treatment alternatives currently available as well as potential technology advances;
- the expected cost of constructing, operating and maintaining the proposed wastewater treatment facility; and
- the general economic development and major industry segment of the location of the project site.

In each case, we were able to model our funding requirement having regard to the costs of construction of the facility, the provision of necessary treatment and other equipment and the likely costs of maintenance over the life of the proposed project. We also considered the type and quantity of wastewater to be processed, the initial costs of the provision of necessary chemicals and other agents, the costs of labour both for construction and on-going maintenance, the likely growth or variations in the need for services and our own cost of funding. Under the terms of each of our BOT agreements with the relevant local government authority or administrative committee, there is a payment model which reflects our anticipated costs as well as mechanisms to adjust for future increased costs, offering the prospect of a relatively predictable profitability of our wastewater treatment operations over the life of each project.

Acquisition of Future BOT Projects

In the future, project opportunities will be awarded by way of open tenders and will be communicated to bidders through various channels such as by public announcements. It is also possible that project opportunities may come to our attention through our own networks and connections in local communities as well as within the wastewater treatment industry. Regardless of how an opportunity is brought to our attention, we will apply the criteria identified above when

BUSINESS

evaluating a project. In addition, we aim to acquire new BOT projects to enable our Group to attain such return on equity and return on assets that are comparable to our Group's historical return on equity and return on assets. For details relating to our Group's historical return on equity and return on assets, please refer to the section headed "Financial Information — Major Financial Ratios Analysis" in this prospectus. If we are satisfied that the prospective project meets our project selection criteria, we will prepare relevant tender documents for submission. When assessing such a tender, we expect that local governments to consider factors such as an applicant's experience, qualifications, credentials, technical design and tender price.

Obtaining Land, Approvals and Permits

Once we have entered into a formal BOT agreement with a local government authority or administrative committee, we will form a project company for the BOT project. We will liaise with such authorities or committees to provide land use rights or rights of occupation for suitable land parcels for developing the wastewater treatment facility under the BOT project and obtain all the necessary approvals and permits from the relevant authorities prior to and after the commencement of construction of facilities. The necessary approvals typically include (i) the construction land use planning permit, (ii) the construction work planning permit, (iii) the construction work commencement permit, (iv) completion inspection and acceptance certificates, (v) the environmental inspection and acceptance, and (vi) the pollutants discharge permit.

Design, Planning and Procurement

Depending on the project requirements, we will hire an appropriate design consultant or institute based on several factors, including the experience and qualifications of the design consultant or institute. Together with the design consultant or institute, we will prepare design proposals and plans to be discussed with the local government authorities. Such design proposals are likely to include various project blueprint parts such as conceptual designs for the technology and equipment required, construction installation plans as well as materials necessary for construction. We strive to design cost-effective and efficient treatment facilities which meet the needs of our customers and conform with relevant PRC laws and regulations.

When the design and implementation plans have been decided and approved by the relevant government authorities, we begin procuring equipment, instruments and the necessary parts needed for construction and eventual operation of the wastewater treatment facility. Ensuring the reliable and cost-effective provision of quality equipment is essential to our operations and therefore our procurement policy generally requires us to obtain quotes from a minimum of three suppliers for all equipment and related parts. We normally select our suppliers based on their background, price, past performance and relationship.

In the case of the Haian Hengfa Facility, equipment, instruments and related parts were sourced through the Haian County Government Procurement Centre (海安縣政府採購中心) as required by the local government authorities because the relevant project company is a joint venture company, 30% of which is owned by Haian Construction Development Investment.

BUSINESS

Construction, Installation and Testing

The construction phase usually takes between nine to 24 months and we are generally responsible for the overall construction management, testing and eventual commissioning of the wastewater treatment facility. We normally hire qualified contractors to construct the facilities as well as install and test relevant equipment, instruments and systems to manage our construction costs and related risks. We are required by the applicable PRC laws and regulations to select our contractors for construction by open tender. Selected contractors are also normally required to supply basic construction materials such as steel and cement at their own expense and are not entitled to claim against our Group for any increased costs for such basic construction materials. Please refer to the paragraphs headed “Suppliers — Independent Contractors” and “Legal and Regulatory Compliance” in this section for further information.

Throughout the construction and installation phase, we organise and supervise the construction process in accordance with the project plan and employ remedial actions as necessary. We also seek to ensure that the quality of the construction works are of sufficient calibre, comply with requisite safety requirements and fulfil the relevant project criteria. Typically, we employ licensed construction supervision companies to help oversee and manage the construction phase of our projects.

Post construction, the wastewater facility is tested by the relevant environmental protection bureau to ensure that they meet the required quality standards and specifications.

Operations and Maintenance

Generally, we commence operations in accordance with the required specifications as prescribed by the relevant BOT agreement, upon satisfactory checking and acceptance of our wastewater treatment facilities by the relevant environmental protection bureau. We are generally responsible for the maintenance and repair costs of the wastewater treatment facilities as well as staffing and providing training during the concession period. We implement rigorous quality control measures during the operational phase to ensure that the wastewater treated meets the required standards. For more details regarding our quality control measures, please refer to the paragraph headed “Quality Control” in this section.

During the operational phase, we are entitled to receive regular payments for our provision of wastewater treatment services as agreed in our BOT agreements.

Transfer of Wastewater Treatment Facilities to Local Government Authorities

Upon the expiry of the concession period, we are required to transfer the wastewater treatment facilities to the local government authorities for nil consideration according to the terms of our BOT agreements. In some cases, we are also obligated to undertake relevant repair and maintenance works to ensure that the wastewater treatment facilities are in sound operating condition on the date of transfer. Furthermore, we may still be obligated to continue providing managerial, operational and

BUSINESS

technical support when requested after transfer. For example, under our BOT agreement for the Rugao Hengfa Facility, we may be requested to provide such service support as necessary to enable the local government authority to operate the wastewater treatment facility smoothly after transfer, but may charge a service fee for doing so.

KEY CONTRACTUAL TERMS OF OUR BOT AGREEMENTS

Each of our wastewater treatment facilities was built pursuant to a BOT agreement between us and the relevant local government authority or administrative committee. We typically form a project company for each of our facilities. These BOT agreements document the terms by which the concession was granted, as well as our respective rights and obligations relating to the wastewater treatment services we are obligated to provide during the concession period. While the specific contractual terms vary from one project to another, a summary of the key contractual terms which are typically found in our BOT agreements is set out below:

Concession period: The period of time for which we are granted the concession to construct and operate the treatment facilities. The concession periods granted for various phases of our facilities, as extended by the respective supplemental BOT agreement, range from 22.5 to 34 years.

Construction schedule: The construction schedule for each project, specifying expected key construction milestone dates such as the commencement and completion of construction.

Key obligations of the local government authority or administrative committee: Generally, the local government authorities or the administrative committee are responsible for establishing the necessary pipeline network and related infrastructure to collect and supply wastewater to the relevant wastewater treatment facility. In addition, such authority or committee are also responsible for providing the land necessary for us to construct and operate our facilities.

Our key obligations: Among other things, we are obligated to ensure timely construction of the wastewater treatment facility, its proper management and operation as well as due compliance with wastewater discharge standards.

Wastewater discharge standards: The BOT agreements prescribe minimum discharge standards of wastewater treatment that we are obligated to achieve before discharging the treated water into the environment by referencing a maximum level of specific pollutants. Similarly, the BOT agreements also stipulate that the local government is responsible for ensuring that wastewater coming into our treatment facilities must not exceed a certain pollution threshold. If incoming wastewater fails to meet the stipulated inlet standard, we are not responsible for failing to achieve the minimum wastewater discharge standards.

Wastewater treatment fees: Generally, we only receive payment during the operational stage of our projects and not during the construction phase. Please refer to the section headed “Financial Information — Critical Accounting Policies and Estimates — BOT Project Model Accounting” in this prospectus for details.

BUSINESS

Once a wastewater treatment facility commences operations, it is entitled to receive monthly payments which includes a guaranteed minimum tariff that is calculated based on the agreed maximum capacity of the facility, regardless of the actual volume of wastewater treated by the respective facility. This tariff essentially guarantees us a minimum amount of income even though the volume of wastewater supplied to our wastewater treatment facilities may fluctuate and fall short of its maximum capacity from time to time. Such payments are typically calculated as if such facility is operating at its agreed maximum capacity in the following manner: (i) in respect of the actual volume of wastewater being treated, the fees payable will be the tariff multiplied by such volume; plus (ii) in respect of any shortfall between the agreed maximum capacity of the facility and the actual volume of wastewater being treated, the wastewater treatment fees payable will be a percentage of the tariff (between 60% to 90%, depending on the terms of the relevant BOT agreement) multiplied by the shortfall volume.

For details regarding our guaranteed tariff, please refer to the paragraph headed “Competitive Strengths — Guaranteed tariffs and town planning protect us from fluctuations in the supply of wastewater provided to our wastewater treatment facilities” in this section.

The actual constructed capacity of the Haian Hengfa Facility was 40,000 tons per day during the three years ended 31 December 2013 after the commencement of operation of the phase II facility in 2009. During the period commenced on 1 January 2011 and ended immediately prior to 4 January 2014, the minimum guaranteed tariff in respect of the Haian Hengfa Facility was calculated with reference to an agreed maximum capacity of 20,000 tons per day instead of its constructed capacity of 40,000 tons per day due to protracted negotiations between the Haian County Construction Bureau and our Group. As a result of the lengthy negotiation process, the BOT agreement for phase II of the Haian Hengfa Facility was not signed until 26 November 2013 despite its commencement of operation in 2009. According to the confirmation from Haian County Construction Bureau, the minimum guaranteed tariff for the Haian Hengfa Facility had been calculated based on an agreed maximum capacity of 40,000 tons per day from 4 January 2014 onwards. For details regarding the tariff for the Haian Hengfa Facility, please refer to the paragraph headed “Details of our Wastewater Treatment Facilities” in this section and the section headed “Financial Information — Review of Historical Operational Results — Revenue” in this prospectus. For details regarding the legality and ownership of phase II of Haian Hengfa Facility, please refer to the paragraph headed “Real Property — Properties Occupied by our Group under the BOT Agreements — Note (1)” in this section.

Tariff adjustments: Generally, negotiations to adjustment of the tariff can be initiated by either party to the relevant BOT agreement. Upon mutual consent of the parties, the tariff can be adjusted under certain circumstances, such as a substantial rise in commodity prices or the raising of wastewater treatment standards by PRC state policy, in each case provided that such circumstances directly increase wastewater treatment costs. Other factors such as operational costs, inflation and the prevailing bank rate and the price index announced by the PRC government may also be taken into account when adjusting tariff rates.

During the Track Record Period, there had been no adjustment to the tariffs for the Haian Hengfa Facility or the Rugao Honghao Facility. The tariff for the Rugao Hengfa Facility was reduced by approximately 4.4% in July 2011 as prescribed in its BOT agreement, which sets out a pre-determined

BUSINESS

tariff schedule for the first few years of its phase II operation (instead of negotiations initiated by the parties as aforementioned). The tariff for the Rugao Hengfa Facility had not been further adjusted since July 2011 and would not be further adjusted based on the pre-determined tariff schedule, unless the parties agree to make further adjustment under circumstances specified in the BOT agreement.

Payment Terms: We are generally entitled to bill our wastewater treatment fees on a monthly basis. We bill our customers at the end of each month and allow our customers a credit period of up to 10 days after the end of each month. For further information, please refer to the section headed “Risk Factors — Risks Relating to our Business — We are exposed to the credit risk of and payment delays by our customers” in this prospectus.

Transfer: Upon expiry of the concession period, we are required to transfer the wastewater treatment facilities to the government for nil consideration. The BOT agreements do not require us to provide any post-transfer warranty, but in some cases, we are obligated to ensure that the wastewater treatment facility is transferred in sound operating condition and to continue to provide managerial, operational and technical support upon request.

Termination and breach: None of our BOT agreements expressly grant either party a contractual right to terminate the agreement. However, under the terms of the BOT agreements, our customers must pay damages or compensation if they do not pay the wastewater treatment fees on time. Similarly, if we cannot achieve the required wastewater treatment quality, our customers have the right to withhold payment of the wastewater treatment fees. Notwithstanding the above, the relevant laws and regulations regarding the government’s supervision on concessionaires provide that the supervisory authority may terminate, cancel or revoke the enterprise’s concession right in some circumstances. For details regarding the applicable PRC laws and regulations, please refer to the section headed “Regulatory Overview — Concession in Municipal Public Utilities Industry — Government Supervision on Concessionaire” in this prospectus.

Revenue Recognition of BOT Projects

Under the BOT project model, we generally do not receive any payment from our customers prior to the commencement of operation of our wastewater treatment facilities. The actual cash inflow for our construction revenue from our BOT projects is only received in the form of cash payments of wastewater treatment fees during the operational phase of the relevant BOT project. However, since our BOT projects are considered as service concession arrangements under HK(IFRIC) Int - 12 *Service Concession Arrangements*, we recognise revenue from a BOT project during both the construction phase and the operational phase. Revenue from the construction of our wastewater treatment facilities under the terms of our BOT agreements is estimated on a cost-plus basis with reference to prevailing rates of gross margins of market comparables at the time of construction, and is recognised on the percentage-of-completion method, measured by reference to the estimated proportion of costs incurred to date in relation to the estimated total cost of the relevant contract. During the operational phase, we record the amount of revenue when wastewater treatment services are rendered, and recognise a corresponding receivable under service concession arrangements.

BUSINESS

For more details regarding our BOT project model accounting, please refer to the sections headed “Financial Information — Critical Accounting Policies and Estimates — Service Concession Arrangements”, “Financial Information — Critical Accounting Policies and Estimates — BOT Project Model Accounting” and “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition” in this prospectus.

PROJECT FINANCING

For our projects, we are responsible for funding the construction of the wastewater treatment facilities. As at 31 May 2014, the total investment cost incurred for our three existing facilities was approximately RMB199.5 million. The estimated payback period of our BOT projects ranged from 3.3 to 9.6 years, based on the financial model computed by CBRE Limited, an Independent Third-Party valuer using the guaranteed monthly payments pursuant to the relevant BOT agreements. As at 31 May 2014, the total investment costs not having been received by our Group for the development of each of the Haian Hengfa Facility, the Rugao Hengfa Facility and the Rugao Honghao Facility were RMB3.4 million, RMB1.6 million, and RMB13.0 million, respectively. The initial construction and investment costs for all of our existing facilities were funded entirely through shareholders’ loans. As at the Latest Practicable Date, the day-to-day operations of each wastewater treatment facility were mainly funded by their own respective cash flows and cash reserves.

Going forward, we may enter into loan financing for our wastewater treatment facilities if we conclude that it is in our best commercial interests. We expect that where such financing is needed, the relevant project company will execute the necessary loan documents for the purpose of the respective project. If any of our three facilities requires funding, the BOT agreements expressly allow funding to be secured by a pledge of their respective wastewater treatment concessions.

In order to meet the higher discharge and operation standards required by the local government of Haian County and Rugao City, respectively, as set out in their respective notices issued in 2013, (i) we started upgrading the Haian Hengfa Facility in March 2014 and expect to complete the upgrade by September 2014 with an estimated capital expenditure of approximately HK\$10.2 million, of which approximately HK\$4.3 million had been incurred as at 31 May 2014, and (ii) we expect to commence upgrading the Rugao Hengfa Facility in September 2014 and expect to complete the upgrade by December 2014 with an estimated capital expenditure of approximately HK\$48.3 million, none of which had been incurred as at 31 May 2014. For details relating to the governmental policies requiring the higher discharge and operation standards, please refer to the section headed “Regulatory Overview — Water Quality” in this prospectus. We intend to finance these capital expenditures using the net proceeds from the Share Offer and our Group’s internal resources.

As at 31 May 2014, we had unrestricted bank balances and cash of approximately HK\$38.0 million. As at 31 July 2014, being the latest practicable date for determining our indebtedness, we had bank borrowings of approximately HK\$31.7 million and no unutilised banking facilities.

BUSINESS

SUPPLIERS

Our suppliers mainly include contractors for our construction works, suppliers for chemicals for our wastewater treatment operations (including sludge treatment), machine parts for our repairs and maintenance of our equipment, service providers for repair and maintenance works and contractors for sludge and sediments disposal. We generally source our chemicals, machine parts and repair and maintenance services from local suppliers. Our purchases of chemicals are generally fully settled in cash upon delivery. Our contracts with machine parts and repair and maintenance services suppliers generally provide us with a one to three year warranty period and we generally settle payment for equipment by cash in up to four instalment(s) within the first three years of purchase.

Our business relationships with our top five suppliers (excluding public utility and electricity providers) ranged from one year to 10 years. Purchases from our five largest suppliers (excluding public utility and electricity providers) amounted to approximately HK\$1.7 million, HK\$1.3 million and HK\$3.5 million and HK\$7.6 million, which accounted for approximately 16.3%, 12.3%, 22.0% and 57.1% of our total costs of sales for the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, respectively. Purchases from our largest supplier (excluding public utility and electricity providers) amounted to approximately HK\$0.7 million, HK\$0.7 million, HK\$2.2 million and HK\$4.3 million, which accounted for approximately 7.1%, 6.4%, 14.2% and 32.0% of our total costs of sales for the same periods, respectively.

During the Track Record Period, we did not experience any material disruption to our wastewater treatment operations as a result of being unable to procure raw materials or equipment or services.

None of our Directors, their close associates or any Shareholder (who, to the knowledge of our Directors, owned more than 5% of our Company's share capital as at the Latest Practicable Date) had any interest in any of our five largest suppliers (excluding public utility and electricity providers) during the Track Record Period.

Raw Materials and Repairs and Maintenance Services

During the construction phase, basic building raw materials such as steel and cement which are needed for constructing the facility foundations are typically provided by our contractors. We procure raw materials including chemicals, and equipment and parts for repair and maintenance for our operation of the wastewater treatment facilities. Specialised equipment and parts required for operations such as pumps, reactor tanks, aeration wheels, fluid distribution systems and wastewater monitoring systems for repair and maintenance are generally sourced and purchased from local suppliers, depending on the technical specifications of each wastewater treatment facility. Haian Hengfa Facility was the only facility which required the importation of some specialised equipment during its construction. The chemicals required for the day-to-day operations of each wastewater treatment facility vary depending on the type of wastewater it treats. For example, the Haian Hengfa Facility currently only treats municipal wastewater, so it typically requires less chemicals in its everyday operations. In contrast, the Rugao Honghao Facility requires a steady inventory and supply of chemicals such as sodium hydroxide, sulphuric acid, polyaluminium chloride, polyacrylamide, ferrous sulphate and hydrogen peroxide since it treats heavy metal wastewater.

BUSINESS

To manage our inventory and price fluctuations, we estimate the costs of raw materials and other operating costs for periods of not less than 12 months, regularly review such estimates and replenish our inventory accordingly. During the Track Record Period and as at the Latest Practicable Date, we had not experienced any material increase in the prices, shortage or delay of our raw materials or any problems that prevented us from efficiently sourcing the chemicals, machine parts necessary for our operations. Should there be material increases in the prices of such raw materials due to changes in government policies or inflation, we may, subject to the agreement of our customers, request corresponding tariff adjustment pursuant to the terms of the respective BOT agreements. For details, please refer to the section headed “Risk Factors — Risks Relating to our Business — We are dependent on third parties for the supply of raw materials and services for repair and maintenance” in this prospectus.

We maintain close relationships with our major suppliers as we believe that ensuring the reliable and cost-effective provision of quality raw materials and repair and maintenance services is essential to our business operations.

We do not enter into long-term contracts with any of our raw materials, machine parts and repair and maintenance services suppliers and typically engage them as and when our business operations require, since they are widely available within the regions that we operate in. We have no centralised procurement policy due to the different nature of each of our wastewater treatment facilities, thus each facility procures its own supplies and services directly. However, we only purchase from suppliers who pass our selection assessment which takes into account factors such as quality, price and distance of delivery.

Our raw materials mainly consist of chemicals, consumables and replacement components and parts which we purchase from Independent Third Parties. For purchases of machine parts, instruments and other repair and maintenance related items, our project companies are generally required to obtain quotes from a minimum of three suppliers. Furthermore, we may conduct site visits to other third party factories in case of important equipment purchase to verify their performance before making any purchase. We normally select our suppliers based on their background, price, past performance and relationship. Since the Haian Hengfa Facility is a joint venture with the Haian County Construction Bureau, purchases of construction related machine parts and instruments must be obtained through the Haian County Government Procurement Centre (海安縣政府採購中心) as required by local government authorities.

For the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, our costs for raw materials, repairs and maintenance services were approximately HK\$2.8 million, HK\$2.3 million, HK\$5.2 million and HK\$1.5 million, which accounted for approximately 26.4%, 21.8%, 32.9% and 11.4% of our total cost of sales, respectively.

Independent Contractors

We normally engage independent third party service providers to provide construction-related services for our wastewater treatment facilities to manage our construction costs and related risks. We engaged licensed construction-supervision companies to monitor the quality of the work of contractors on multiple levels to ensure their compliance with our required specifications and requirements as well

BUSINESS

as their timely completion. During the Track Record Period, we did not conduct open tenders for some of the construction contracts to contractors as required by the applicable PRC laws and regulations. For further information, please refer to the paragraph headed “Legal and Regulatory Compliance” in this section. We have adopted a policy to conduct tenders for the selection of contractors for construction of facilities.

Our construction contracts typically include provisions:

- defining the scope of work, time for completion;
- asserting that contractors are responsible for all damages, claims, losses and related expenses resulting from any delay caused by them in respect of their work;
- allowing contractors to extend completion dates due to delays caused by us;
- asserting that we may pay default interest to contractors if we fail to make timely payments; and
- restricting contractors from further sub-contracting their work without our consent.

We pay our contractors according to the terms specified in each contract. Our contractor would be in breach if it fails to meet the quality specifications as set out in the contract or if the contractor is unable to complete construction within the timeline specified in the contract. Under some circumstances, we may have the right to terminate the agreement and claim compensation for our economic losses.

The construction of the Haian Hengfa Facility and the Rugao Hengfa Facility was completed prior to 31 December 2010. Although the Rugao Honghao Facility completed construction in November 2011, we did not incur any construction costs in relation to it as we only acquired Greatcorp, the parent company of the Rugao Honghao Facility, in February 2013. As a result, we did not incur any construction cost during the years ended 31 December 2011, 2012 and 2013.

We commenced upgrade works for the Haian Hengfa Facility in March 2014 and carried out certain improvement works for the Rugao Hengfa Facility in January 2014. As a result, we incurred construction costs of approximately HK\$6.3 million, representing approximately 47.3% of our total cost of sales in the five months ended 31 May 2014. The aforesaid improvement works for the Rugao Hengfa Facility were completed in July 2014 with an estimated total capital expenditure of approximately HK\$3.2 million. We expect to commence the upgrade works for the Rugao Hengfa Facility in September 2014. The total capital expenditure for the upgrade works of the Haian Hengfa Facility and the Rugao Hengfa Facility was estimated to be approximately HK\$10.2 million (of which HK\$4.3 million was incurred for the five months ended 31 May 2014) and HK\$48.3 million, respectively, and are expected to be completed by September 2014 and December 2014, respectively.

BUSINESS

Utilities

Electricity and water are the principal utilities used in our operations. For the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, our overhead cost (including electricity, utilities and sewage disposal) amounted to approximately HK\$5.4 million, HK\$5.5 million, HK\$7.6 million and HK\$4.2 million, representing approximately 51.3%, 53.6%, 48.3% and 31.0% of our total cost of sales, respectively.

CUSTOMERS

Our customers are Haian County Construction Bureau and Rugao ETDZ Administrative Committee, which are the respective local government authority and administrative committee in Nantong City with whom we entered into the respective BOT agreements. Haian Hengfa receives payment from the Haian County Construction Bureau while both Rugao Hengfa and Rugao Honghao receive payments from the Rugao ETDZ Administrative Committee. Our business relationship with these customers formally commenced when we first entered into the respective BOT agreements with them.

For the year ended 31 December 2011, our revenue attributable to the Haian County Construction Bureau and the Rugao ETDZ Administrative Committee amounted to approximately HK\$11.9 million and HK\$32.6 million, accounting for approximately 26.8% and 73.2% of our total revenue, respectively. For the year ended 31 December 2012, our revenue attributable to the Haian County Construction Bureau and the Rugao ETDZ Administrative Committee amounted to approximately HK\$12.3 million and HK\$34.6 million, accounting for approximately 26.3% and 73.7% of our total revenue, respectively. For the year ended 31 December 2013, our revenue attributable to the Haian County Construction Bureau and the Rugao ETDZ Administrative Committee amounted to approximately HK\$13.2 million and HK\$51.9 million, accounting for approximately 20.3% and 79.7% of our total revenue, respectively. For the five months ended 31 May 2014, our revenue attributable to the Haian County Construction Bureau and the Rugao ETDZ Administrative Committee amounted to approximately HK\$10.8 million and HK\$24.7 million, accounting for approximately 30.4% and 69.6% of our total revenue, respectively.

Each of the Haian County Construction Bureau and the Rugao ETDZ Administrative Committee is an Independent Third Party. To the best of the knowledge of our Directors, the Haian County Construction Bureau and the Rugao ETDZ Administrative Committee are financially independent of each other.

We derive all of our revenue from the abovementioned local government authority and administrative committee, which had been and are expected to be our key customers for the remaining term of the BOT agreements. In the event either the local government authority or administrative committee ceases its use of our services, our business operations will be materially and adversely affected. For further information, please refer to the section headed “Risk Factors — Risks Relating to our Business — We derive all our revenue from two customers and the loss of any one of them could have a material adverse impact on our business, financial condition and operational results” in this prospectus.

BUSINESS

AWARDS

Our commitment to excellence is evidenced by the following awards we have received since our establishment:

Award	Awarding Body	Month and Year of Award
<i>Awards received by the Haian Hengfa Facility/Haian Hengfa</i>		
Award for Constructing a National Level Ecological Demonstration Unit	Haian County People's Government	April 2005
2005 Open Economic Model Enterprise Award	Haian County People's Government	February 2006
2005 Outstanding Unit for Attracting Foreign Investment Award	Haian County Housing and Urban & Rural Construction Bureau	February 2006
2005 Outstanding Unit for Environmental Protection Award	Haian County Environment Protection Committee	April 2006
Outstanding Unit for Environmental Protection during the Tenth Five-year Plan Period Award	Haian County People's Government	April 2007
Nantong City Scientific and Technological Advancement Award	Nantong City People's Government	October 2007
<i>Awards received by the Rugao Hengfa Facility/Rugao Hengfa</i>		
Outstanding Unit of the County for Reduction of Pollution and Emission	Rugao City People's Government	September 2007
2008 Outstanding Unit for Energy Conservation and Emission Reduction Award	Rugao City People's Government	January 2009
2010 Outstanding Sector Management Unit for Housing Construction Industry Award	Rugao City Housing and Urban & Rural Construction Bureau	January 2011
2010 Outstanding Enterprise for Energy Conservation and Emission Reduction Award	Chinese Communist Party Working Committee of the Rugao ETDZ	January 2011
2011 Outstanding Sector Management Unit for the Housing Construction Industry Award	Rugao City Housing and Urban & Rural Construction Bureau	January 2012
2011 Outstanding Unit for Energy Conservation and Emission Reduction Award	Rugao City People's Government	January 2012

BUSINESS

Award	Awarding Body	Month and Year of Award
2011 Outstanding Unit for Energy Conservation and Emission Reduction Award	Chinese Communist Party Working Committee of the Rugao ETDZ	January 2012
2012 Outstanding Sector Management Unit for Housing Construction Industry Award	Rugao City Housing and Urban & Rural Construction Bureau	January 2013
2012 Outstanding Enterprise for Energy Conservation and Emission Reduction Award	Chinese Communist Party Working Committee of the Rugao ETDZ	January 2013

QUALITY CONTROL

Quality control is one of our operational cornerstones as we believe our continued growth, reputation and commercial success is dependent on our ability to consistently provide reliable and stable wastewater treatment services. We have implemented a series of quality control procedures, provided staff training on the proper use of facility equipment as well as safety procedures and installed digital monitoring systems to track wastewater quality. We also carry out inspections from time to time to determine whether our existing quality control protocols remain effective. If needed, we would take corrective measures to improve our procedures to ensure effective and efficient quality control.

We have implemented a series of quality control measures to help us ensure that our operations run smoothly and that problems are resolved in a timely manner. Some of the key measures include the following:

- the compliance with our assessment criteria with respect to the selection of contractors and suppliers to ensure their services and supplies meet our quality standards and requirements;
- the installation of a digital monitoring system to track and record wastewater quality data;
- the conducting of induction training sessions regarding the proper use of facility equipment as well as safety procedures;
- the regular maintenance of all electrical and mechanical equipment as well as updated logs and reports of such maintenance; and
- the hosting of regular staff meetings whereby all key employees can discuss and analyse solutions for recent or potential problems, if any.

Our quality control team, which comprises our technical workers, takes wastewater samples regularly to test the quality of treated wastewater being discharged from our wastewater treatment facilities to ensure that the required standards are met. The relevant local environmental protection

BUSINESS

bureau also monitors the quality of our wastewater treatment services. Each of our wastewater treatment facilities has a sensor installed at our outlet pipes which analyses and transmits wastewater data directly to the local environmental protection bureau, allowing such bureau to monitor the quality of our wastewater treatment services at any time.

We are only responsible for the wastewater treatment process within the confines of our facilities. We are not under any legal obligation to monitor unauthorised discharges of wastewater beyond our facilities nor are we responsible for such unauthorised discharges.

During the Track Record Period and as at the Latest Practicable Date, we had not received any material warnings or complaints with regard to the quality of our wastewater treatment services.

REPAIRS AND MAINTENANCE AND UPGRADE WORKS

As a part of our quality control procedures, we conduct routine repairs and maintenance to optimise our wastewater treatment efficiency and to ensure our operations are not interrupted due to equipment failure, damage or malfunction. Pursuant to our established procedures, we typically inspect our electrical and mechanical equipment regularly and carry out related repairs and maintenance as needed. In January 2014, we carried out certain improvement works for the Rugao Hengfa Facility and incurred construction costs of approximately HK\$2.0 million. We also have plans to upgrade the Haian Hengfa Facility and the Rugao Hengfa Facility. In March 2014, we commenced upgrade works for the Haian Hengfa Facility and incurred construction costs of approximately HK\$4.3 million. Please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus. Except as disclosed therein, and in the absence of unforeseen circumstances, our Directors do not expect to incur material costs to replace and/or upgrade any of our major equipment and facilities within the next 12 months.

During the Track Record Period and up to the Latest Practicable Date, there had been no significant disruptions caused to the operations of our wastewater treatment facilities due to defective equipment and save as disclosed above, our Group had not carried out any material improvement or upgrade works for our wastewater treatment facilities.

With respect to our plans to upgrade the Haian Hengfa Facility and the Rugao Hengfa Facility, our Directors believe that no material adverse impact to our Group’s operation of the facilities will be resulted from such works as (i) none of our facilities are operating at full capacity, and (ii) we have multiple pieces of machinery and tanks that can run simultaneously such that even in the event that a particular piece machinery or tank is required for suspension for reconnection and recalibration as a result of the other added tanks and wastewater treatment processes, the remaining machinery and tanks will continue to treat wastewater supplied to the facility.

HEALTH AND SAFETY COMPLIANCE

We believe that our employees are one of our most important assets and also believe that injuries to them harm our reputation and employee morale. Therefore, we have established thorough work safety policies and procedures. Each of our wastewater treatment facilities maintains its own emergency reporting system. We provide our employees with training sessions to educate them on the

BUSINESS

proper use of facility equipment as well as safety procedures to avoid potential accidents. Additionally, employees handling certain wastewater treatment equipment and performing certain roles must undertake specialised training in order to operate such equipment and perform such roles safely. Our wastewater treatment equipment is also inspected and maintained regularly to ensure that it is functioning properly and remains in compliance with applicable national or industrial standards. As at the Latest Practicable Date, Haian Hengfa and Rugao Hengfa had registered their specialised equipment and had obtained the necessary safety inspection certificate for such equipment as required under the applicable PRC laws and regulations. In addition, the technical staff operating such equipment also held the relevant technical qualification certificates. We have obtained written confirmation issued by the relevant safety production bureaus which confirmed that we were in compliance with the applicable PRC laws and regulations on the operation of specialised equipment.

Under the national and local health and safety laws and regulations in China, employers must provide employees with a safe working environment, which means among other things, providing adequate safety training, protective gear as well as having dedicated safety management personnel. We believe our health and safety control measures are adequate and comply with applicable national and local health and safety laws and regulations in China. During the Track Record Period and as at the Latest Practicable Date, there had been no major work-related injuries or accidents. Based on the above, our PRC legal advisers advised us that there had been no material violation of any applicable PRC laws and regulations on production safety. Furthermore, the relevant PRC authorities had not imposed any sanctions or penalties on us for incidents of non-compliance with any health and safety laws or regulations in China during the Track Record Period.

During the Track Record Period, there has been no accident causing injuries owing to the structural safety of the Haian Hengfa Facility, the Rugao Hengfa Facility and the Rugao Honghao Facility.

INSURANCE

We maintain property insurance covering our wastewater treatment facilities. Our Directors believe that as at the Latest Practicable Date, the insurance coverage maintained by us is in line with the industry norm.

During the Track Record Period and as at the Latest Practicable Date, we had not experienced any interruptions, losses or damage to our facilities which would materially affect us. Furthermore, no material claims from our employees or third parties had been filed against us during the Track Record Period and as at the Latest Practicable Date. Our Directors believe that we are adequately covered by our existing insurance for the relevant risks against which it is normal and prudent to insure against in our industry and such coverage is in line with industry norm. For details regarding our insurance related risks, please refer to the section headed “Risk Factors — Risks Relating to our Business — Our insurance coverage may not adequately cover the risks related to our business operations” in this prospectus.

BUSINESS

MARKET AND COMPETITION

The wastewater treatment industry in the PRC has evolved and grown significantly over the past several years due to favourable environmental policies, rapid urbanisation and higher standards of living. Despite such growth, the wastewater treatment industry remains highly fragmented. Please refer to the section headed “Industry Overview” in this prospectus for details.

We believe our three existing wastewater treatment facilities do not face intense competition in providing wastewater treatment services in the regions where we operate because in each case, it was the local government authority who approached us and invited us to construct the facilities. When local government authorities or administrative committees conceptualise, plan and design the areas of townships and industrial parks, they typically include wastewater treatment services as part of their urbanisation plans. The construction of our three existing wastewater treatment facilities was part of the local governments’ town planning schemes, forming an integral part of their public infrastructure. As at the Latest Practicable Date, our existing wastewater treatment facilities were not fully utilised and our Directors were not aware of any government plans that required building additional wastewater treatment facilities in the regions in which we were operating. Even if the local government authorities or administrative committees were to increase the wastewater treatment capacities in their respective regions, our Directors believe they would approach us and ask us to expand our relevant existing facilities as they did before.

In the event that the local government authorities or administrative committees in Nantong City decide to award future wastewater treatment projects on a tender basis, we may face competition from other larger wastewater treatment companies with greater financial resources, more extensive marketing capabilities, or, possibly, more advanced technology and longer track records. However, our Directors believe that we can compete effectively against such competition because of (i) our superior understanding of the government authorities and administrative committees in Nantong City and the regulatory environment in the regions in which we operate, (ii) our proven project execution capability and experience, and (iii) the reliability and stability of our wastewater treatment services. For details regarding our competitive strengths and competition related risks, please refer to the paragraph headed “Competitive Strengths” in this section and the section headed “Risk Factors — Risks Relating to our Business — Competition in the wastewater treatment services industry may increase and our inability to maintain our competitiveness could materially and adversely affect our financial performance” in this prospectus.

MONITORING AND INFORMATION SYSTEM

All of our wastewater treatment facilities have their own centralised monitoring and control systems installed, allowing our respective facility managers to run each operation more efficiently. Sensors are installed at specific points throughout our wastewater treatment processes which track key wastewater monitoring parameters such as COD, pH, nitrogen content in incoming and outgoing water as well as wastewater volume. The relevant data is sent directly to the respective facility’s centralised monitoring systems, which is then sent to the local environmental protection bureaus. Consequently, our employees can track each aspect of our operations, maintain detailed records and identify problems early to ensure that our wastewater treatment facilities are operating smoothly.

BUSINESS

During the Track Record Period and as at the Latest Practicable Date, we had not experienced any material breakdown or malfunction of our monitoring and information systems.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we held one registered trademark and did not hold any patents. For more details regarding our trademark, please refer to the section headed “Statutory and General Information — B. Further Information about our Business — 2. Intellectual Property Rights of our Group” in Appendix IV to this prospectus.

During the Track Record Period and as at the Latest Practicable Date, we had not been involved in any material claims with respect to the infringement of intellectual property rights belonging to third parties, nor had there been any material claims of infringement of our intellectual property rights by third party.

EMPLOYEES

As at the Latest Practicable Date, we employed a total of 65 full-time employees and had experienced negligible annual staff turnover. Compensation provided to our employees includes basic salary, variable salary and bonuses. For the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, our staff costs for salaries and employee benefits was approximately HK\$2.6 million, HK\$3.0 million, HK\$3.6 million and HK\$2.4 million, respectively. The following table sets forth the number of employees categorised by areas of operations as at 31 May 2014:

	Number of Employees
Management.....	7
General and administration	5
Finance	5
Operation and procurement	31
Quality control (including laboratory staff)	8
Engineering and maintenance	9
Total	<u>65</u>

Except for Mr. Chau, Mr. Chan, Mr. Lui Hin Weng Samuel and two members of our staff, all our employees were located within Nantong City, Jiangsu Province, China, as at 31 May 2014.

We recruit personnel from the open market and offer our employees remuneration packages which include salary and bonus. In general, the salaries of our employees largely depend on their performance and length of service with us. We conduct periodic performance reviews for all of our employees and their salaries and bonuses are performance-based. We place significant emphasis on staff training and development. Staff training on the proper use of facility equipment as well as safety and maintenance procedures are conducted internally by our management and various department

BUSINESS

heads. We want to ensure that our staff remains equipped with the necessary skills to be productive in their respective areas of work as this in turn helps our Group to maintain our competitiveness. Our Directors believe that the abovementioned initiatives and training programs are sufficient for the operation and development of our business.

Haian Hengfa has a labour union. During the Track Record Period and as at the Latest Practicable Date, we were not involved in any labour dispute with our employees or their labour unions (actual or known to our Directors to be pending or threatened by or against us) that would have a material adverse effect on our business, financial condition or operational results.

We maintain social security insurance and housing provident funds in accordance with applicable PRC laws and regulations. During the Track Record Period, we failed to make adequate contributions to certain employees' social security insurance and housing provident funds. Please refer to the paragraph headed "Legal and Regulatory Compliance" in this section for details. The contributions made to our employees' social insurance and housing provident fund amounted to HK\$0.5 million, HK\$0.5 million, HK\$0.6 million and HK\$0.5 million in aggregate for the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, respectively. In Hong Kong, we participate in a mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance. Under such ordinance, the employer and its employees are each required to make monthly contributions to the plan at 5% of the employee's relevant income. For this purpose, the monthly relevant income is subject to a cap of HK\$30,000.

REAL PROPERTY

All the property occupied by us at our three wastewater treatment facilities was made available to us by the local government authorities pursuant to the terms and conditions of our BOT agreements. Such property must be transferred back to the local government authorities upon expiry of the relevant concession periods. As at the Latest Practicable Date, except for the land on which the Haian Hengfa Facility was constructed upon, we did not own any land use rights to any other land. We understand that we are obliged to procure the transfer of the land use rights and building ownership rights underlying such facility to Haian County Construction Bureau upon the expiry of such BOT agreement for nil consideration. The land use rights to land parcels on which the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed were held by Rugao ETD Company and Rugao Xinchai Company, respectively, being companies wholly-owned by Rugao ETDZ Administrative Committee, a local government administrative committee of the People's Government of Rugao City. Details of the land use rights to the land parcels on which the Rugao Hengfa Facility and Rugao Honghao Facility was constructed are set out in footnotes (3), (4) and (7) to the table under the paragraph headed "Properties Occupied by our Group under the BOT Agreements" in this section.

We expect to continue using the BOT project model to carry out our business operations. As such, we expect to occupy and use the land made available to us in future projects in manners similar to how we obtained the rights to use and occupation the land for our current facilities.

BUSINESS

We currently lease the premises for our Hong Kong office from a connected person. For more details regarding such lease arrangement, please refer to the section headed “Connected Transaction” in this prospectus.

Properties Occupied by Our Group under the BOT Agreements

Our PRC legal advisers advised us that, as at the Latest Practicable Date, save as disclosed in this section, we had obtained all the material licences and certificates relating to land use rights, construction and building ownership from appropriate regulatory authorities for each of our wastewater treatment facilities. Details of the properties occupied by us under the BOT agreements and the material certificates and permits relevant to our rights of use and the construction of our wastewater treatment facilities are summarised as follows:

	Haian Hengfa Facility	Rugao Hengfa Facility	Rugao Honghao Facility
Project Company	Haian Hengfa	Rugao Hengfa	Rugao Honghao
Use of Property	Municipal wastewater treatment facility for Haian County	Municipal and industrial wastewater treatment facility for Rugao ETDZ	Heavy metal wastewater treatment facility for Rugao ETDZ
Holder of land use rights and ownership to buildings	Haian Hengfa ⁽¹⁾⁽²⁾	Rugao ETD Company ⁽³⁾⁽⁴⁾	Rugao Xinchai Company ⁽³⁾⁽⁷⁾
Site Area (square metres)	Approximately 33,319	Approximately 40,308	Approximately 19,333
Material Land and Construction Related Certificates and Permits			
• <i>Land use rights certificate</i>	Obtained	Not applicable ⁽³⁾⁽⁴⁾	Not applicable ⁽³⁾⁽⁷⁾
• <i>Construction land use planning permit</i>	Obtained	Phase I: Obtained Phase II: Obtained ⁽⁵⁾	Obtained ⁽⁵⁾
• <i>Construction work planning permit</i>	Obtained	Obtained	Obtained ⁽⁵⁾
• <i>Commencement of construction work permit</i>	Obtained	Obtained	Obtained ⁽⁵⁾
• <i>Completion acceptance certificate</i>	Obtained	Obtained	Obtained
• <i>Building ownership certificate</i>	Obtained	Not applicable ⁽⁶⁾	Not applicable ⁽⁶⁾
Restriction on Use and Encumbrance			
• <i>Duration and expiry date of the concession period</i>	Phase I: initially for 28 years, and subsequently extended to 34 years to expire on 25 May 2036 Phase II: 22.5 years, to expire on 25 May 2036 ⁽¹⁾	Phase I: initially for 25 years, and subsequently extended to 28 years to expire on 28 April 2035 Phase II: 25 years, to expire on 28 April 2035	28 years, to expire on 14 November 2039
• <i>Expiration date of the relevant land use rights certificates</i>	18 March 2031 ⁽²⁾	Not applicable ⁽³⁾	Not applicable ⁽³⁾

BUSINESS

	Haian Hengfa Facility	Rugao Hengfa Facility	Rugao Honghao Facility
• Charges	Nil	The land use rights underlying phase II of the facility were charged by Rugao ETD Company to an Independent Third Party as security for certain lending arrangements ⁽⁷⁾ .	The land use rights were charged by Rugao Xinchai Company to an Independent Third Party as security for certain lending arrangements ⁽⁷⁾ .

Notes:

- ⁽¹⁾ The BOT agreement for phase I of the Haian Hengfa Facility was signed on 25 September 2002, under which the parties agreed, among other things, to further negotiate on the additional amount of investment and the return for phase II of Haian Hengfa Facility in the event the actual operation of the facility requires expansion. The construction of phase II of the Haian Hengfa Facility commenced in 2008 and was completed in 2009. On 26 November 2013, the BOT agreement recognising phase II of the Haian Hengfa Facility was signed, under which the parties confirmed the construction of phase II of the Haian Hengfa Facility and Haian Hengfa's concession right to operate phase II the Haian Hengfa Facility. Although the construction of phase II of the Haian Hengfa Facility commenced and completed prior to the signing of the BOT agreement for phase II of the Haian Hengfa Facility, the competent government authorities had granted the construction land use planning permit, construction work planning permit and commencement of construction work permit prior to the commencement of construction and the completion acceptance certificate for the completion of construction, which evidenced such authorities' acknowledgement of such construction of phase II of the Haian Hengfa Facility. Based on the above, our PRC legal advisers advised us that the construction of phase II of the Haian Hengfa Facility and the use and occupation of the buildings comprising phase II of the Haian Hengfa Facility had been recognised by the competent government authorities during the construction period and before the entering into of the relevant BOT agreement in November 2013. In addition, on the bases that the land use rights for the land parcels on which the Haian Hengfa Facility was constructed had been held by Haian Hengfa since 18 March 2003, and that Haian Hengfa had obtained the building ownership certificates for phase II of the Haian Hengfa Facility, our PRC legal advisers advised us that Haian Hengfa had owned the land use right of phase II of the Haian Hengfa Facility and had the rights to occupy and use the buildings thereon, during the construction period and prior to the entering into of the BOT agreement in 2013 and that we had the ownership of the buildings comprising such phase after obtaining the building ownership certificate.
- ⁽²⁾ Our land use rights to the land parcels on which the facility was constructed is subject to a land grant period that ends prior to our concession period under the BOT agreement. As advised by our PRC legal advisers, we may apply for a renewal of such land grant period one year prior to the expiry date by submitting a formal application to the relevant government authority and paying the required land premium. Please refer to the section headed "Risk Factor — Risks Relating to our Business — Some of our wastewater treatment facilities were constructed on land parcels that are subject to third parties' rights or land grant period that is shorter than the concession period under the relevant BOT agreement" in this prospectus.
- ⁽³⁾ Rugao Hengfa and Rugao Honghao do not hold any land use rights to the land parcels on which the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed. Rugao ETD Company holds the allocated land use rights certificate for phase I and the land use rights certificate for phase II of the Rugao Hengfa Facility. Rugao Xinchai Company holds the land use rights certificate for the Rugao Honghao Facility. According to the written confirmations issued by (i) Rugao ETD Company, (ii) Rugao Xinchai Company, (iii) the Rugao ETDZ Administration Committee, and (iv) the Rugao City Land and Resources Bureau (如皋市國土資源局), Rugao Hengfa and Rugao Honghao were entitled to use and occupy the land parcels underlying the Rugao Hengfa Facility and the Rugao Honghao Facility, respectively, during the respective concession periods for nil consideration for providing wastewater treatment services under the relevant BOT agreements. On the above bases, our PRC legal advisers advised us that our occupation of the land parcels on which phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed constituted legal occupation of such land parcels and that, considering further reasons set out in note (4) below, we were entitled to occupy and use the land parcels on which phase I of the Rugao Hengfa Facility was constructed.

BUSINESS

- (4) In respect of phase I of the Rugao Hengfa Facility, Rugao ETD Company obtained an allocated land use rights certificate on 30 April 2014, pursuant to which Rugao ETD Company was allocated with land use rights of the land parcels underlying phase I of the Rugao Hengfa Facility for public utility uses only. In addition, the Rugao ETDZ Administration Committee issued a written confirmation that Rugao ETD Company provided the allocated land parcels to our Group for the operation of the Rugao Hengfa Facility under the relevant BOT agreement. The Rugao City Land and Resources Bureau also confirmed in writing that it will not regard such provision of the allocated land by Rugao ETD Company to our Group pursuant to the BOT agreement as tenancy or transfer of land use rights. According to the written confirmations issued by Rugao ETD Company, the Rugao ETDZ Administration Committee and Rugao City Land and Resources Bureau, Rugao Hengfa is entitled to use and occupy the land parcels underlying the Rugao Hengfa Facility during the respective concession periods for nil consideration for providing wastewater treatment services under the relevant BOT agreements. Furthermore, pursuant to the relevant BOT agreements, the responsibility to provide land for the Rugao Hengfa Facility primarily rests on Rugao ETDZ Administrative Committee and not on Rugao Hengfa. In light of the above and according to the Notice on Land for Urban Utility and Charity Use (《城市基礎設施用地和公益事業用地》), which provided that urban utility facilities are permitted to use allocated land parcels, our PRC legal advisers advised us that Rugao Hengfa is entitled to occupy and use the land parcel on which the phase I of the Rugao Hengfa Facility was constructed and that the likelihood of Rugao Hengfa being penalised for our occupation of the land parcels underlying phase I of the Rugao Hengfa Facility prior to the allocated land use rights certificate was obtained by Rugao ETD Company is remote. Our Directors consider that it is unlikely that Rugao Hengfa will be penalised for our use and occupation of the land parcels underlying phase I of the Rugao Hengfa Facility prior to the land use rights certificates was obtained by Rugao ETD Company taking into consideration that under our relevant BOT agreement, the local government administrative committee is responsible for providing the land necessary for us to construct and operate the facility and the Rugao Hengfa Facility is crucial to the local government's town planning scheme.
- (5) We had not obtained (i) the construction land use planning permit prior to the construction of phase II of the Rugao Hengfa Facility, and (ii) the construction land use planning permit, construction work planning permit and commencement of construction work permit prior to the construction of the Rugao Honghao Facility, in accordance with the applicable PRC laws and regulations. We had obtained the construction land use planning permit for phase II of the Rugao Hengfa Facility, and the construction land use planning permit, the construction work planning permit and commencement of construction work permit for the Rugao Honghao Facility as at the Latest Practicable Date. Please refer to the paragraph headed "Legal and Regulatory Compliance" in this section for details.
- (6) We had obtained the building ownership certificates for the Haian Hengfa Facility as at the Latest Practicable Date. Our PRC legal advisers advised us that since Rugao Hengfa and Rugao Honghao did not hold the land use rights to the relevant land parcels, it was not possible for each of Rugao Hengfa and Rugao Honghao to apply for the building ownership certificates for the facilities and it does not constitute any violation of any PRC laws and regulations. For details relating to our rights to use and occupy the Rugao Honghao Facility, please refer to the paragraph headed "Real Property — Properties Occupied by our Group under the BOT Agreements — Building Ownership Certificates" in this section.

BUSINESS

- (7) Rugao Hengfa and Rugao Honghao do not hold any land use rights to the land parcels on which the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed, and the land use rights of such land parcels are held by and made available to us by Rugao ETD Company and Rugao Xinchai Company, respectively. We were informed that the land use rights underlying phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility had been charged by Rugao ETD Company and Rugao Xinchai Company, respectively, to Independent Third Party banks as security for certain bank loans of the Rugao ETD Group (the “**Third Party Bank Loans and Charges**”). We have no control over the performance of the relevant lenders of their obligations under the Third Party Bank Loans and Charges. Our PRC legal advisers advised us that we may be prevented from using and occupying the phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility in the event the relevant banks, or the chargees, enforce their rights of sale under the Third Party Bank Loans and Charges. Please refer to the section head “Risk Factors — Risks Relating to our Business — Some of our wastewater treatment facilities were constructed on land parcels that are subject to third parties’ rights or land grant period that is shorter than the concession period under the relevant BOT agreement” in this prospectus and the paragraph headed “Real Property — Charges of land parcels where phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed for third party loans” in this section for details.

Building ownership certificates

We had obtained the building ownership certificates for the Haian Hengfa Facility as at the Latest Practicable Date. For the Rugao Hengfa Facility and the Rugao Honghao Facility, neither our Group, nor Rugao ETD Company or Rugao Xinchai Company, being the respective holders of the land use rights of the land parcels on which such facilities were constructed, had obtained the building ownership certificates.

We had not obtained the building ownership certificates for the Rugao Hengfa Facility or the Rugao Honghao Facility as we did not hold the land use rights to the land parcels on which the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed. According to our PRC legal advisers, it was not possible for each of Rugao Hengfa and Rugao Honghao to apply for the building ownership certificates for the buildings comprising respective facilities. In addition, the BOT agreements did not require Rugao Hengfa or Rugao Honghao to obtain any building ownership certificates for the facilities. Under the BOT agreements, the Rugao ETDZ Administrative Committee shall be responsible for providing the land parcels for the construction and operation of the Rugao Hengfa Facility and the Rugao Honghao Facility, and handling the required formalities with the relevant government authorities at all levels in connection with the construction of the projects. However, these obligations were related to the provision of the physical land parcels and construction related permits for the facilities and did not specifically require Rugao ETDZ Administrative Committee to provide building ownership certificates for the facilities. Accordingly, our PRC legal advisers were of the view that the parties to the relevant BOT agreements were not contractually and specifically required to provide any building ownership certificates for the Rugao Hengfa Facility and the Rugao Honghao Facility under the relevant BOT agreements.

We had obtained the construction land use planning permit, construction work planning permit, commencement of construction work permit and completion acceptance certificate for each of the Haian Hengfa Facility, the Rugao Hengfa Facility and the Rugao Honghao Facility.

BUSINESS

Our PRC legal advisers advised us that the absence of the relevant building ownership certificates does not constitute a defect on the legal title of the Rugao Hengfa Facility and the Rugao Honghao Facility on the bases that:

- (i) Rugao ETD Company and Rugao Xinchai Company had already obtained the land use right certificates of the land parcels on which the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed;
- (ii) the construction of the Rugao Hengfa Facility and the Rugao Honghao Facility would be regarded as having complied with the applicable PRC laws and regulations after Rugao Hengfa and Rugao Honghao have obtained the respective construction land use planning permits, construction work planning permits, commencement of construction work permits and completion acceptance certificates for the construction of such facilities; and
- (iii) the absence of the building ownership certificates for the Rugao Hengfa Facility and the Rugao Honghao Facility practically prevented Rugao ETD Company and Rugao Xinchai Company from conducting the relevant registration with the competent government authorities when selling the facilities or using the facilities as security for constructed buildings mortgages but did not prevent Rugao Hengfa or Rugao Honghao from constructing the respective facilities in accordance with the respective construction land use planning permits, construction work planning permits and commencement of construction work permits, and obtaining the respective completion acceptance certificates.

Our PRC legal advisers also advised us that the competent government authorities may, in accordance with the relevant PRC laws and regulations and depending on the severity of the non-compliance incident, require constructed buildings be vacated and demolished in the case where the entity commissioning such construction failed to obtain the relevant construction related permit or certificate. Since Rugao Hengfa and Rugao Honghao had already obtained all the necessary construction related permits and certificates, our PRC legal advisers advised us that Rugao Hengfa and Rugao Honghao would not be required by the competent governmental authorities to demolish and vacate such properties solely as a result of the absence of the respective building ownership certificates.

In addition, considering the above and the fact that:

- (i) pursuant to the relevant BOT agreements, the confirmations from Rugao ETDZ Administrative Committee, Rugao ETD Company, Rugao Xinchai Company and Rugao City Land and Resources Bureau, Rugao Hengfa and Rugao Honghao were entitled to occupy and use the land parcels on which the Rugao Hengfa Facility and the Rugao Honghao Facility, respectively, were constructed and the buildings constructed thereon;
- (ii) each of Rugao ETD Company and Rugao Xinchai Company had confirmed in writing their respective agreement to the construction and use of the buildings comprising the Rugao Hengfa Facility and the Rugao Honghao Facility by us during the term of the relevant BOT agreements, and our PRC legal advisers were of the view that Rugao ETD Company and Rugao Xinchai Company, being the holders of the land use right certificates of the relevant

BUSINESS

land parcels, have the rights to permit the construction and use of the Rugao Hengfa Facility and the Rugao Honghao Facility after the respective construction land use planning permits, construction work planning permit, commencement of construction work permits and the completion acceptance certificates for the construction of such facilities are obtained;

- (iii) the Rugao Economic Development Zone Development Planning Bureau, being the competent local government authority to confirm such matters according to our PRC legal advisers, had confirmed verbally that our occupation and use of the Rugao Hengfa Facility and the Rugao Honghao Facility would not constitute illegal occupation and use of properties after we have obtained the respective construction land use planning permits, construction work planning permits, commencement of construction work permits and completion acceptance certificates for the construction of such facilities; and
- (iv) despite our contractual obligation to transfer the Rugao Hengfa Facility and the Rugao Honghao Facility back to the local government authorities upon expiry of the respective concession periods for nil consideration under the relevant BOT agreement, we would not be required to transfer the ownership of such land parcels and the buildings thereon pursuant to such terms as the land use right certificates and building ownership certificates of such land parcels and buildings were not issued under the names of Rugao Hengfa and Rugao Honghao, respectively,

our PRC legal advisers advised us that (a) the absence of the relevant building ownership certificates did not constitute any violation of any PRC laws and regulations by us, (b) in the absence of the relevant building ownership certificates, we remained entitled to occupy and use the Rugao Hengfa Facility and the Rugao Honghao Facility, and (c) the absence of the building ownership certificates for the Rugao Hengfa Facility and the Rugao Honghao Facility does not pose any material legal risks to our Group.

As far as our Directors were aware, since the Rugao Hengfa Facility or the Rugao Honghao Facility were essential to the local government's town planning schemes that formed an integral part of their public infrastructure, Rugao ETD Company and Rugao Xinchai Company had no intention to sell or pledge the constructed buildings comprising the aforementioned facilities and were, therefore, reluctant to obtain the building ownership certificates for such facilities. Considering also the governmental background of Rugao ETD Company and Rugao Xinchai Company, we believe the relevant local government authorities will ensure each of Rugao Hengfa and Rugao Honghao can occupy and use the respective facilities, so as to assure the smooth operation of such wastewater treatment facilities. Based on the above, the Directors believe that the absence of the respective building ownership certificates does not pose any material risks for the operation of the Rugao Hengfa Facility and the Rugao Honghao Facility.

Completion, acceptance and safety condition

The construction of our wastewater treatment facilities was subject to completion inspection and acceptance procedures under the applicable PRC laws and regulations. Our PRC legal advisers advised us that the construction of each of our wastewater treatment facilities was required to be inspected and accepted by the entity commissioning the construction of the relevant facility, the construction company, the construction supervising company and the construction design company of the construction of such facility, and the competent construction administrative department. Such inspecting entities were required to issue a completion acceptance certificate to acknowledge the safety condition of such constructed facility according to the Rules for the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (《房屋建築和市政基礎設施工程竣工驗收規定》), which should be filed with the competent construction administrative department for record.

We had obtained, and filed with the competent construction administrative department, a completion acceptance certificate duly sealed by the respective applicable inspecting entities for each of the Haian Hengfa Facility, the Rugao Hengfa Facility and the Rugao Honghao Facility. As advised by our PRC legal advisers, the issue of such completion acceptance certificate confirmed the aforesaid inspecting entities' completion of acceptance checks of the respective facilities and their acknowledgement of the safety condition of the respective facilities in accordance with the Rules for the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (《房屋建築和市政基礎設施工程竣工驗收規定》).

In addition, we were advised by our PRC legal advisers that according to the House Registration Measures (《房屋登記辦法》), an applicant of building ownership certificates is only required to submit to the relevant building registration authority the respective completion acceptance certificate to demonstrate the completion of the mandatory acceptance checks and the safety condition of the buildings for which the building ownership certificates are applied, and that the building registration authority does not organise inspection and acceptance checks for such buildings. As we have already obtained the completion acceptance certificates for each of the Rugao Hengfa Facility and the Rugao Honghao Facility, our PRC legal advisers advised us that the mere absence of the building ownership certificates for such facilities did not imply any defects on the safety condition thereof.

Charges of land parcels where phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility were constructed for third party loans

We were informed that the land use rights underlying phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility, which were held by Rugao ETD Company and Rugao Xinchai Company, respectively, were subject to the Third Party Bank Loans and Charges. We have no control over the performance of the relevant lenders of their obligations under the Third Party Bank Loans and Charges. Our PRC legal advisers advised us that we may be prevented from using and occupying the the phase II of the Rugao Hengfa Facility and the Rugao Honghao Facility in the event the relevant banks, or the chargees, enforce their rights of sale under the Third Party Bank Loans and Charges.

BUSINESS

Please refer to the section headed “Risk Factors — Risks Relating to our Business — Some of our wastewater treatment facilities were constructed on land parcels that are subject to third parties’ rights or land grant period that is shorter than the concession period under the relevant BOT agreement” in this prospectus for details.

According to the annual report of Rugao ETD Company for the year ended 31 December 2013, (i) the land use right underlying phase II of the Rugao Hengfa Facility together with another land use right held by Rugao ETD Company were pledged for a loan of RMB150 million granted by Bank of Jiangsu, which will be due on 2 August 2016, and (ii) the land use right underlying the Rugao Honghao Facility together with other land use rights held by Rugao Xinchai Company were pledged for a loan of RMB642 million granted by Industrial and Commercial Bank of China, which will be due on 24 April 2020.

Directors’ and the Sponsor’s views

Having assessed the aforesaid risk exposure faced by our Group, and taking into account:

- (i) the governmental background of Rugao ETD Company and Rugao Xinchai Company and the status of the Rugao ETDZ being a state-level economic and technological development zone;
- (ii) the fact that the Rugao Hengfa Facility and the Rugao Honghao Facility are integral parts of Rugao ETDZ’s infrastructure and the local government’s town planning scheme;
- (iii) Rugao ETD Group’s financial position;
- (iv) the fact that Rugao ETD Company and Rugao Xinchai Company are wholly-owned by the Rugao ETDZ Administrative Committee, and each of Rugao ETD Company and Rugao Xinchai Company is expected to have adequate accessibility to financing channels (for instance, Rugao ETD Company raised RMB1.0 billion by issuing corporate bonds listed on the Shanghai Stock Exchange in February 2014 (the “**Rugao ETD 2014 Corporate Bond**”)) and/or alternative assets to refinance, or provide additional security for, their lending; and
- (v) the long term credit rating of Rugao ETD Company and the issue credit rating of the Rugao ETD 2014 Corporate Bond were “AA” and “AAA”, respectively,

our Directors consider, and the Sponsor concurs, that there are reasonable grounds to believe that the likelihood of the relevant lenders defaulting on the Third Party Bank Loans and Charges and thereby entitling the chargees to enforce their rights of sale against any land parcels on which the two facilities were respectively constructed is remote barring unforeseen circumstances.

BUSINESS

The aforesaid factors are further elaborated as follows:

- (i) *Governmental background of Rugao ETD Company and Rugao Xinchai Company and Rugao ETDZ being a state-level economic and technological development zone*

According to the bond issuance document of the Rugao ETD 2014 Corporate Bond, Rugao ETD Company was established in February 1993 under the approval of the People's Government of Rugao. Rugao ETD Company is wholly-owned by Rugao ETDZ Administrative Committee, being a local government administrative committee of the People's Government of Rugao City and our customer in respect of the Rugao Hengfa Facility and the Rugao Honghao Facility. Rugao ETD Company has a registered capital of RMB435 million and was approved by the local government as the sole investment and asset management entity responsible for primary land development (i.e., the development of state-owned land reserves by way of land requisition, demolition, relocation of occupants and the levelling of land parcels in accordance with specific planning conditions) and construction of infrastructure (including ecological and environmental infrastructure) in the Rugao ETDZ, which is located in Jiangsu Province. In January 2013, the Rugao ETDZ was elevated to become a state-level economic and technological development zone.

According to the bond issuance document of the Rugao ETD 2014 Corporate Bond, Rugao Xinchai Company was established on 8 December 2009 and is a wholly-owned subsidiary of Rugao ETD Company with a registered capital of RMB1,150 million. Rugao Xinchai Company is principally engaged in rural area infrastructure development and construction, groundwork and infrastructure project contracting, housing construction contracting, housing demolition, plantation and sale of vegetables, fruits and flowers, and farming and sale of aquatic products.

- (ii) *The Rugao Hengfa Facility and the Rugao Honghao Facility being crucial parts of Rugao ETDZ's infrastructure and the local government's town planning scheme*

The PRC government is becoming more active in controlling pollution in China, such as increasing investments in wastewater treatment facilities. The official investment budget as noted in the country's 12th Five-Year Plan to develop wastewater treatment facilities between 2011 and 2015 was RMB430.0 billion, which represented an increase of approximately RMB54.0 billion from RMB376.0 billion spent between 2006 and 2010.

The Rugao Hengfa Facility and the Rugao Honghao Facility are crucial parts of the local town planning schemes and form an integral part of public infrastructure. The Rugao Hengfa Facility and the Rugao Honghao Facility are located in the Rugao ETDZ, an economic and technological development zone that has adopted policies to specifically attract investment from high-tech industries. To the best knowledge of our Directors, save for the Rugao Hengfa Facility and the Rugao Honghao Facility, there are two more wastewater treatment facilities in the Rugao ETDZ which treats, in aggregate, 8,000 tons of wastewater per day. Accordingly, the Rugao Hengfa Facility and the Rugao Honghao Facility covers approximately 84.5% of the wastewater treatment capacity in the Rugao ETDZ and the Rugao Honghao Facility is the only wastewater treatment facility that treats heavy metal wastewater.

BUSINESS

The Rugao Hengfa Facility treats the wastewater discharged by the factories in the Rugao ETDZ and residents living nearby whereas the Rugao Honghao Facility specifically treats heavy metal wastewater discharged by factories operating in the Rugao ETDZ. The wastewater discharged by the factories contains various chemicals and also heavy metal elements which are highly toxic. Improper treatment of wastewater before being discharged to the environment will impact the ecological environment and the health of the residents nearby and this will be a critical and sensitive issue for the local government. As such, our Directors believe, and the Sponsor concurs, that the suspension of the Rugao Hengfa Facility and Rugao Honghao Facility would be intolerable by the local community and the local government.

It would be extremely burdensome on the Rugao ETDZ Administrative Committee and the People's Government of Rugao and significant and unnecessary costs would be incurred by the Rugao ETDZ Administrative Committee to relocate the Rugao Hengfa Facility and the Rugao Honghao Facility given the fact that:

- (a) the wastewater treatment operations at the Rugao Hengfa Facility and the Rugao Honghao Facility would need to be suspended for a significant time. To the best knowledge of the Directors, there is a lack of sufficient wastewater storage facilities in the area to store substantial volumes of wastewater during the suspension of operation of such facilities. As such, our Directors believe that substantial volumes of untreated wastewater would have to be illegally discharged into the environment directly or the factories that discharge wastewater to our facilities may be forced to suspend operations in order to avoid discharging toxic wastewater to the environment;
- (b) substantial resources and time would be required to adjust the current infrastructure to relocate the wastewater treatment facilities (including building a new water pipes network to supply wastewater to new wastewater treatment facilities); and
- (c) the construction of the new wastewater treatment facilities and procurement of additional equipment will incur extra costs which our Directors believe would significantly increase the wastewater treatment fees payable by Rugao ETDZ Administrative Committee to us based on the pricing principle of tariff contained in the relevant BOT agreements.

In light of the foregoing, and in particular the significant environmental and economic costs and issues involved, our Directors are of the view, and the Sponsor concurs, that the relocation of the Rugao Hengfa Facility and the Rugao Honghao Facility will be highly disruptive to the administration of the Rugao ETDZ Administrative Committee and therefore, the People's Government of Rugao and the Rugao ETDZ Administrative Committee would avoid the relocation of the Rugao Hengfa Facility and the Rugao Honghao Facility at all costs and that they would ensure the normal operations of the Rugao Hengfa Facility and the Rugao Honghao Facility in all circumstances.

BUSINESS

(iii) Rugao ETD Group's financial position

The Rugao ETD 2014 Corporate Bond was listed on the Shanghai Stock Exchange on 18 February 2014 (Shanghai Stock Exchange stock code: 124491). Certain consolidated financial information of the Rugao ETD Group is extracted as follows based on the financial information of Rugao ETD Company published on the website of the Shanghai Stock Exchange:

	For the year ended 31 December				For the six months ended 30 June
	2010	2011	2012	2013	2014
	(RMB' million)	(RMB' million)	(RMB' million)	(RMB' million)	(RMB' million)
Revenue	476.6	550.3	685.9	616.5	226.1
Net profit	161.3	193.9	285.0	285.2	127.8

	As at 31 December				As at 30 June
	2010	2011	2012	2013	2014
	(RMB' million)	(RMB' million)	(RMB' million)	(RMB' million)	(RMB' million)
Net current assets	5,405.7	6,195.5	7,431.4	9,470.5	11,116.0
Net assets	4,394.6	5,240.9	6,036.5	7,510.3	7,632.0

The following financial information of Rugao Xinchai Company for the year ended 31 December 2012, being the latest published figures, is extracted from the bond issuance document of the Rugao ETD 2014 Corporate Bond:

	For the year ended 31 December 2012
	(RMB' million)
Revenue	208.5
Net profit	56.3

	At as 31 December 2012
	(RMB' million)
Total assets	4,480.6
Net assets	3,184.0

BUSINESS

Pursuant to the audited financial information for the year ended 31 December 2013 provided by Rugao Xinchai Company, Rugao Xinchai Company was at net asset position as at 31 December 2013 and it remained profitable for the year ended 31 December 2013.

The Rugao ETD Group recorded net profit for each of the four years ended 31 December 2013 and the six months ended 30 June 2014. Net profit of the Rugao ETD Group were approximately RMB285.2 million and RMB127.8 million for the year ended 31 December 2013 and the six months ended 30 June 2014, respectively. The net asset value of the Rugao ETD Group has been on an increasing trend since 2010. Its net asset value amounted to approximately RMB7,510.3 million and RMB7,632.0 million as at 31 December 2013 and 30 June 2014, respectively. The net asset value of Rugao Xinchai Company was approximately RMB3,184.0 million as at 31 December 2012. Having considered the Rugao ETD Group's net assets of RMB7,510.3 million and RMB7,632.0 million as at 31 December 2013 and 30 June 2014, respectively, our Directors consider, and the Sponsor concurs, that the Rugao ETD Group would be able to repay and discharge the Third Party Bank Loans and Charges barring unforeseen circumstances.

(iv) *Credit rating and solvency of Rugao ETD Company*

Based on a corporate bond rating report (企業債券跟蹤評級報告) (the “**Rating Report**”) dated 29 June 2014, the long term credit rating of Rugao ETD Company and the issue credit rating of Rugao ETD 2014 Corporate Bond were “AA” and “AAA”, respectively.

The Rating Report was issued by Shanghai Brilliance Credit Rating & Investors Service Co., Ltd (上海新世紀資信評估投資股務有限公司) (“**Brilliance Rating**”), which is a licensed enterprise bond rating agent of the National Development and Reform Commission of China and a licensed corporate bond rating agent of the China Securities Regulatory Commission.

According to the scale of issue credit rating of Brilliance Rating, there are nine levels of rating from the highest of “AAA” to the lowest of “C”. The ratings “AAA”, “AA”, “A” and “BBB” are categorised as investment rating, while the rating “BB”, “B”, “CCC”, “CC” and “C” are categorised as speculation rating. “AAA” rating represents an extremely strong ability for debt repayment which basically would not be affected by adverse economic condition and the risk of default is extremely low, while “AA” rating represents a very strong ability for debt repayment which would not be materially affected by adverse economic condition and the risk of default is very low.

According to a compliance and solvency analysis report (履約情況及償債能力分析報告) issued by GF Securities Co., Ltd., the underwriter of the Rugao ETD 2014 Corporate Bond and a securities firm listed on the Shenzhen Stock Exchange, on 12 May 2014 and published on the website of the Shanghai Stock Exchange, GF Securities Co., Ltd. was of the view that (i) the financial structure of Rugao ETD Company is relatively solid, (ii) its ability to repay debt is relatively strong, and (iii) its financial risk is relatively low.

To the best knowledge of our Directors and the Sponsor, no local government in the PRC had been reported as being subject to bankruptcy proceedings as at the Latest Practicable Date.

BUSINESS

Undertakings from the Rugao ETDZ Administrative Committee

The Rugao ETDZ Administrative Committee had provided written undertakings to provide us with alternative land parcels for our operations in the event the relevant chargees exercise the rights of sale as a result of a default on the Third Party Bank Loans and Charges, and to indemnify our operating loss and other losses, including losses arising from the relocation and construction of new wastewater treatment facilities. Our PRC legal advisers advised us that such undertakings are legally binding under the applicable PRC laws. Our PRC legal advisers also advised us that, in the event we are forced to relocate the wastewater facilities, Rugao ETDZ Administrative Committee has the obligation to pay us the operating losses, including the relevant minimum guaranteed tariff, during the period of relocation and construction of the new wastewater facilities pursuant to the relevant BOT agreements and the written undertakings provided by the Rugao ETDZ Administrative Committee. Our Directors estimate that such minimum guarantee tariff we expect to receive during the relocation and construction period of the Rugao Hengfa Facility and the Rugao Honghao Facility will be approximately RMB42.8 million and RMB15.8 million, respectively. On the bases that we will be indemnified for our losses, including the relevant minimum guaranteed tariff, as aforesaid, our Directors expect that our financial condition will not be materially and adversely affected as a result of such relocation. Our Directors estimate that the aggregate costs for relocating and constructing the new wastewater facilities for the operations for the Rugao Hengfa Facility and the Rugao Honghao Facility will be approximately RMB62.3 million and RMB35.6 million, respectively, all of which should be indemnified by the Rugao ETDZ Administrative Committee in accordance with the aforesaid undertakings.

While our Directors believe, and the Sponsor concurs, that it is highly unlikely that the Rugao Hengfa Facility and the Rugao Honghao Facility will be relocated for reasons set out in the paragraphs above, and on the bases that:

- (i) the Rugao ETDZ Administrative Committee is responsible for providing the land necessary for the Group to construct and operate the Rugao Hengfa Facility and the Rugao Honghao Facility according to the relevant BOT agreements;
- (ii) the Rugao ETD Group had other land parcels that were not pledged according to the Rugao ETD 2014 Corporate Bond issuance documents;
- (iii) our Directors have confirmed to their best knowledge, information and belief having made all reasonable enquiries with the relevant local authorities, including the verbal confirmation from the Rugao ETDZ Administrative Committee, that there are other lands located in the Rugao ETDZ that are suitable for building new wastewater treatment facilities; and

BUSINESS

- (iv) our Directors consider, that there are reasonable grounds to believe that the likelihood of the relevant lenders defaulting on the Third Party Bank Loans and Charges and thereby entitling the chargees to enforce their rights of sale against any land parcels on which the two facilities were respectively constructed is remote barring unforeseen circumstances,

our Directors consider, and the Sponsor concurs, that nothing has come to their/its attention that the Rugao ETDZ Administrative Committee cannot meet their obligations under the aforesaid undertakings.

ENVIRONMENTAL COMPLIANCE

We are subject to national and local environmental protection laws and regulations in China, including but not limited to the Environmental Protection Law of the PRC, the Law of the PRC on Appraising Environment Impact and the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》). Please refer to the section headed “Regulatory Overview” in this prospectus for details.

Our PRC legal advisers advised us that, as at the Latest Practicable Date, save as disclosed in this section, we had complied with the relevant environmental laws and regulations. During the Track Record Period and as at the Latest Practicable Date, we had not received any claims from our customers or been imposed with any penalty by any government authority for failing to comply with any applicable licensing and environmental requirements.

Environmental Inspection and Acceptance of Facilities and Pollutants Discharge Permit

As advised by our PRC legal advisers, we are required by the Regulation Relating to the Environmental Inspection and Completion Acceptance of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) to apply for the environmental inspection and acceptance of our wastewater treatment facilities within the stipulated trial operation period after the commencement of trial operations of the relevant facilities. In addition, as advised by our PRC legal advisers, in accordance with the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), we are also required to obtain a pollutants discharge permit for the operation of each of our wastewater treatment facilities.

The Haian Hengfa Facility and the Rugao Hengfa Facility had passed the required environmental inspection and acceptance as required by the applicable regulations. We had also obtained the pollutants discharge permits for the Haian Hengfa Facility and the Rugao Hengfa Facility.

In respect of the Rugao Honghao Facility, we had not applied for its environmental assessment approval, environmental inspection and acceptance and the pollutants discharge permit under the name of Rugao Honghao. Notwithstanding the above, Rugao City Hongrun Metal Water Treatment Company Limited (如皋市宏潤金屬表面處理有限公司) (“**Rugao Hongrun**”), had obtained, among other things, (i) the environmental assessment approval, (ii) the environmental inspection and acceptance, and (iii) a pollutants discharge permit for the operation of the Rugao Hongrun Motor Car Accessory Electroplating Project (如皋宏潤汽車配件電鍍項目) (the “**Hongrun Electroplating Project**”), an electroplating project in the EEM Industrial Park. As at the Latest Practicable Date, Rugao Hongrun

BUSINESS

was an Independent Third Party wholly-owned by Rugao ETD Company that engaged in motor car accessory electroplating and electroplating consulting. As confirmed and acknowledged by the respective competent government authorities, despite no independent application had been made for the aforementioned approvals and permits in respect of the Rugao Honghao Facility under the name of Rugao Honghao, such approvals and permits had been obtained for the wastewater treatment operations of the Rugao Honghao Facility as the ancillary environmental facility of the Hongrun Electroplating Project. Please refer to the paragraphs below for details relating to the aforementioned confirmation from the competent government authorities and the opinion from our PRC legal advisers relating to the same.

In June 2014, Rugao Honghao obtained a trial operation permit and a temporary pollutants discharge permit for the Rugao Honghao Facility.

Environmental protection approvals and permits and government confirmation letters relating to the operation of the Rugao Honghao Facility as an ancillary environmental facility of the Hongrun Electroplating Project

In respect of the Hongrun Electroplating Project, Rugao Hongrun had obtained, among other things:

- (i) the environmental assessment approval granted by Nantong City Environmental Protection Bureau;
- (ii) the trial operation permit granted, and subsequently extended, by the Nantong City Environmental Protection Bureau, which covered the period commenced on 20 October 2011 and ended in July 2013 immediately after the completion of the environmental inspection and acceptance of the facility;
- (iii) the environmental inspection and acceptance granted by Nantong City Environmental Protection Bureau; and
- (iv) the pollutants discharge permit granted by Rugao City Environmental Protection Bureau effective from 7 August 2013 to 6 August 2016.

Our PRC legal advisers advised us that the environmental inspection and acceptance granted by Nantong City Environmental Protection Bureau in July 2013, and the pollutants discharge permit granted by Rugao City Environmental Protection Bureau effective from 7 August 2013 to 6 August 2016, indicated that Rugao Hongrun had been in compliance with the related requirements stipulated by the relevant environmental laws and regulations through the trial operation period from October 2011 to July 2013.

BUSINESS

In respect of the operation of the Rugao Honghao Facility as an ancillary facility of the Hongrun Electroplating Project, the relevant government authorities had given the following confirmations and acknowledgements:

- (i) the Rugao ETDZ Administrative Committee and the Rugao City Development and Reform Committee had confirmed in writing that Rugao Honghao had been responsible for wastewater treatment for the Hongrun Electroplating Project;
- (ii) the Rugao City Environmental Protection Bureau had confirmed in writing that the actual scope of operations of the Hongrun Electroplating Project had not exceeded the scope of operations covered by the aforementioned approvals and permits granted to Rugao Hongrun in respect of the Hongrun Electroplating Project;
- (iii) the Jiangsu Province Environmental Protection Department was informed in writing by the Rugao ETDZ Administrative Committee of the fact that despite no independent application had been made for any environmental protection related approvals and permits in respect of the Rugao Honghao Facility under the name of Rugao Honghao, the relevant approvals and permits had been obtained for the wastewater treatment operations of the Rugao Honghao Facility as the ancillary environmental facility of the Hongrun Electroplating Project;
- (iv) the Rugao City Environmental Protection Bureau, the relevant competent authority had confirmed in writing that given:
 - the operation of the Rugao Honghao Facility as the ancillary environmental facility of the Honghao Electroplating Project had been granted with, among other things, the environmental assessment approval, environmental inspection and acceptance and pollutants discharge permit by the respective authorities; and
 - the Jiangsu Province Environmental Protection Department had already acknowledged the above circumstances,

the bureau considered that:

- (a) it would not regard the fact that Rugao Honghao had not previously obtained the aforesaid approvals and permits under its own name for the operation of the Rugao Honghao Facility as a violation to applicable PRC laws and regulations; and
 - (b) it would not impose any administrative penalty on Rugao Honghao; and
- (v) Rugao City Environmental Protection Bureau, the competent authority had also confirmed in writing that:
- (a) the construction and operation of the Rugao Honghao Facility was compliant with the applicable PRC environmental protection laws and regulations;

BUSINESS

- (b) there had been no dispute between the bureau and Rugao Honghao; and
- (c) the pollutants discharged from the Rugao Honghao Facility had been in compliance with the relevant environmental requirements.

Opinion from PRC legal advisers

Based on the above facts and confirmations given by the respective government authorities, our PRC legal advisers advised us that:

- the aforesaid operation of the Rugao Honghao Facility as the ancillary environmental facility of the Hongrun Electroplating Project had been acknowledged by each of Rugao ETDZ Administrative Committee, Rugao City Development and Reform Committee, Rugao City Environmental Protection Bureau, Nantong City Environmental Protection Bureau and Jiangsu Province Environmental Protection Department, being the relevant competent authorities;
- despite Rugao Honghao had not obtained the related environmental protection approvals and pollutants discharge permit for the Rugao Honghao Facility under its own name prior to June 2014, Rugao Hongrun had obtained the relevant approvals and permit in respect of the Hongrun Electroplating Project (that Rugao Honghao had been solely responsible for wastewater treatment for Hongrun Electroplating Project), which were legally valid for the operation of the Rugao Honghao Facility; and
- accordingly, the wastewater treatment operations and the pollutants discharge carried out in the Rugao Honghao Facility under the name of Rugao Hongrun had not constituted any illegal unlicensed wastewater treatment operation or pollutant discharge.

The trial operation permit and temporary pollutants discharge permit of the Rugao Honghao Facility obtained by Rugao Honghao

Notwithstanding the above, considering the Rugao Honghao Facility had been operated solely by Rugao Honghao, our PRC legal advisers had suggested Rugao Honghao to apply for the environmental inspection and acceptance and pollutants discharge permit for the facility under its own name.

Rugao Honghao obtained the trial operation permit on 18 June 2014 and the temporary pollutants discharge permit on 19 June 2014 for the operation of the Rugao Honghao Facility under its own name. The trial operation period stipulated under these permits was three months ending 18 September 2014.

Our PRC legal advisers further advised us that:

- Rugao Honghao, having already obtained the trial operation permit and the temporary pollutants discharge permit under its own name, will be able to apply for the environmental inspection and acceptance of the Rugao Honghao Facility under its own name in stages or as an one-off procedure depending on the actual utilisation of the facility during the stipulated trial operation period or any extended trial operation period as applicable,

BUSINESS

according to Regulations on the Administration of Environmental Inspection and Acceptance of Construction Project (《建設專案竣工環境保護驗收管理辦法》), the National Environmental Protection Ministry's Notice on Issues Relating to the Supervision and Administration of Construction Project Environmental Inspection and Acceptance (《國家環境保護總局關於建設專案環境保護設施竣工驗收監測管理有關問題的通知》) and the confirmation from Rugao Environmental Protection Bureau; and

- Rugao Honghao will be able to apply for the formal pollutants discharge permit under its own name after the completion of the environmental inspection and acceptance of the Rugao Honghao Facility during the stipulated trial operation period or any extended trial operation period as applicable as aforesaid, according to Jiangsu Province Regulation on the Administration of Pollutants Discharge Permit (《江蘇省排放水污染物授權管理辦法》) and the confirmation from Rugao City Environmental Protection Bureau.

Our Company undertakes to (i) procure Rugao Honghao to apply for the environmental inspection and acceptance for the Rugao Honghao Facility in stages, or as an one-off procedure depending on the actual utilisation of the facility, according to the applicable PRC laws and regulations within the stipulated trial operation period, or apply for extension of the trial operation period of such facility in accordance with the applicable PRC laws and regulations, and (ii) disclose the status of the environmental inspection and acceptance procedures to be conducted and the status of application of the pollutants discharge permit for the Rugao Honghao Facility in our annual report(s) and interim report(s) for all reporting periods after Listing until (but including the reporting period during which) such procedures have been completed and the pollutants discharge permits have been obtained.

Our PRC legal advisers advised us that as Rugao Honghao had obtained the environmental assessment approval, the trial operation permit and the temporary pollutants discharge permit for the operation of the Rugao Honghao Facility, there is no material legal impediment for Rugao Honghao to conduct the environmental inspection and acceptance for the Rugao Honghao Facility in its own name. Our PRC legal advisers further advised us that provided the Rugao Honghao Facility continues to comply with the applicable environmental protection related laws and regulations, the risk of Rugao Honghao failing to complete the environmental inspection and acceptance procedures for such facility during the stipulated trial operation period (or an extension thereof) and to obtain the pollutants discharge permit is remote. Based on the aforesaid, our Directors are of the view, and the Sponsor concurs that, the risk of Rugao Honghao failing to complete the environmental inspection and acceptance procedures during the stipulated trial operation period (or an extension thereof) and to obtain the pollutants discharge permit is remote.

Environmental Qualification Certificate

We were required to obtain the environmental qualification certificate for the operation of each of our wastewater treatment facilities. We had, historically, operated our wastewater treatment facilities without any such environmental qualification certificate.

BUSINESS

On 27 March 2014, the Environmental Protection Bureau Administrative Office (環境保護部辦公廳) issued the Notice on the Reform of Operation Approvals of Environmental Pollution Treatment Facilities (《關於改革環境污染治理設施運行許可工作的通知》), confirming and informing all provincial environmental protection departments in respect of the cancellation of the class A and class B qualification and temporary qualification for the operation of environmental pollution treatment facilities. The Haian County Environmental Protection Bureau and Rugao City Environmental Protection Bureau had confirmed to us, respectively, in writing that the construction and operation of each of our wastewater treatment facilities complied with the applicable PRC laws and regulations on environmental protection. Based on the above, our PRC legal advisers advised us that the likelihood of Haian Hengfa, Rugao Hengfa and Rugao Honghao being subject to administrative penalties in connection with our historical failure to obtain the environmental qualification certificates is remote and that our Group is no longer required to obtain environmental qualification certificates.

Please also refer to the paragraph headed “Legal and Regulatory Compliance” in this section and the section headed “Risk Factors — Risks Relating to our Business”.

Environmental Compliance Costs

Our environmental compliance expenses were HK\$0.5 million, HK\$0.7 million, HK\$0.7 million and HK\$0.3 million during the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, respectively. Such costs were primarily attributable to the fees and expenses paid in ensuring compliance of the aforementioned environmental related regulations in the PRC in respect of the development and operations of our three wastewater treatment facilities. At our current operation capacities and utilisation levels, and in absence of unforeseen circumstances (including any unexpected high inflation rates or change in relevant regulatory requirement), we expect to incur not more than HK\$1.0 million on an annual basis to ensure compliance in respect of environmental related laws and regulations after Listing.

LEGAL AND REGULATORY COMPLIANCE

The following table sets forth a summary of our Group's past and present material legal and regulatory non-compliance during the Track Record Period:

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Failed to lay the profit and loss accounts and balance sheets of Everbest Water Treatment Development at its respective annual general meeting within the prescribed time limit pursuant to Section 122 of the Predecessor Companies Ordinance for the years between 2003 and 2010 (inclusive).	Primarily due to the inadvertence of and the lack of awareness on the part of our administration staff in respect of the requirements to lay the relevant audited accounts at annual general meetings despite Everbest Water Treatment Development was an investment holding company with no business and taxable income in Hong Kong under the Predecessor Companies Ordinance.	Each of the directors of Everbest Water Treatment Development who were responsible for the default under Section 122 of the Predecessor Companies Ordinance may be liable to maximum fine of HK\$300,000 and 12-month imprisonment. Among these directors of Everbest Water Treatment Development who were responsible for such non-compliance incident, only Mr. Chau and Mr. Chan were Directors of our Company.	Everbest Water Treatment Development convened an extraordinary general meeting on 18 March 2014 to lay the profit and loss accounts and balance sheets for the years between 2003 and 2010, which were adopted by the shareholders of Everbest Water Treatment Development at such meeting. We submitted an application to the Court of First Instance of the High Court of Hong Kong (the " Court ") on 25 March 2014 for orders to extend the prescribed period to lay the audited profit and loss accounts and balance sheets at the annual general meetings. Hearing for such application was held on 15 August 2014. As at the Latest Practicable Date, judgment of the Court is still pending. Enhanced internal control measures have been adopted to avoid recurrence of such non-compliance incident. Please refer to the paragraph headed "Legal and Regulatory Compliance — Enhanced Internal Control Measures" in this section for details.	Mr. Kim Min Ju, Hong Kong barrister-at-law, who was engaged to issue a legal opinion in relation to such non-compliance incident, advised us that in the event of prosecution, the then directors of Everbest Water Treatment Development at the material time would be liable for the default. In the case of conviction, the likelihood of the imposition of a maximum sentence on any of the then directors of Everbest Water Treatment Development would be extremely remote given (i) the offence was not committed wilfully, and (ii) there are mitigating factors in favour of the directors. Such mitigating factors include but not limited to the fact that the default was inadvertent and based on a mistaken belief that accounts did not have to be laid for an investment holding company with no business and taxable income in Hong Kong and the directors had voluntarily made the aforesaid application to the Court to rectify the default. Such mitigating factors would reduce any fines which may be imposed by the Court. Accordingly, our Directors were of the view that such incidents will not result in any material adverse impact on our Group's business, financial condition and operation results.

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
<p>Failed to obtain approval from the relevant governmental authorities on the following matters as required by the applicable PRC laws and regulations:</p> <ul style="list-style-type: none"> • Delay in paying up the registered capital of Haian Hengfa (June 2003 and January 2007, respectively), Rugao Hengfa (January 2009) and Haian Property (December 2003) in accordance with the payment timetable prescribed by their respective articles of association; • Change in the form of payment of registered capital of Haian Hengfa by Haian Construction Development Investment from cash to land at incorporation in March 2003. 	<p>Primarily due to the inadvertence of and the lack of awareness on the part of our administration staff in respect of the local corporate legal and regulatory requirements relating to company set up and maintenance.</p>	<p>Our PRC legal advisers advised us that, according to the applicable PRC laws and regulations, unauthorised delay in the payment of registered capital may result in the relevant company being deemed to have been automatically dissolved and unauthorised change of form of payment of registered capital may result in the possible invalidation of such registered capital payment.</p> <p>Our PRC legal advisers advised us that the applicable PRC laws and regulations do not provide for any monetary penalty for such non-compliance incident.</p>	<p>The registered capital of Haian Hengfa had been fully paid up in April 2004 and the subsequent increase in registered capital had been fully paid up in April 2007.</p> <p>Haian Hengfa changed its articles of association on 24 March 2014 to amend the form of payment of registered capital by Haian Construction Development Investment from cash to land and the change had been approved by the relevant government authority.</p> <p>The registered capital of Rugao Hengfa had been fully paid up in March 2010.</p> <p>The registered capital of Haian Property had been fully paid up on 28 March 2005.</p> <p>Haian County MOFCOM had confirmed to us in writing that no administrative penalties will be imposed on Haian Hengfa and Haian Property.</p> <p>Nantong City Administration For Industry and Commerce (南通市工商行政管理局) had confirmed to us in writing that Rugao Hengfa had been compliant with all applicable PRC laws and regulations in respect of its incorporation and its subsequent increases in registered capital.</p> <p>Enhanced internal control measures have been adopted to avoid recurrence of such non-compliance incidents. Please refer to the paragraph headed “Legal and Regulatory Compliance — Enhanced Internal Control Measures” in this section for details.</p>	<p>Having considered (i) the fact that the registered capital of the relevant companies have been fully paid up, (ii) the competent authorities had not imposed any penalty on the relevant companies, (iii) the relevant regulation requiring the company to be automatically dissolved as a result of such non-compliance has been repealed, and (iv) the written confirmations provided by the competent authorities, our PRC legal advisers were of the view that such non-compliance incidents will not affect the valid existence or have any material adverse effect on the legal status of the subsidiaries involved. Accordingly, our Directors were of the view that such incidents will not result in any material adverse impact on our Group’s business, financial condition and operation results.</p>

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Each of Haian Hengfa, Rugao Hengfa and Rugao Honghao had commenced operations of wastewater treatment facilities without the environmental qualification certificate.	Primarily due to the inadvertence of and the lack of awareness on the part of our administration staff in respect of the local legal requirements relating to environmental qualification certificate.	Our PRC legal advisers advised us that, according to the then applicable PRC laws and regulations, operations of any wastewater treatment facility without the necessary environmental qualification certificate may give rise to a maximum fine of RMB30,000 and other administrative penalties including but not limited to forfeiture of profits, seizure of assets, mandatory operation suspension, licence or permit revocation, etc., for each non-compliance incident.	On 27 March 2014, the Environmental Protection Bureau Administrative Office (環境保護部辦公處) issued the Notice on the Reform of Operation Approvals of Environmental Pollution Treatment Facilities (關於改革環境污染處理設施運行許可工作的通知), confirming and informing all provincial environmental protection departments in respect of the cancellation of the class A and class B qualification and temporary qualification for the operation of environmental pollution treatment facilities.	Having considered (i) that the competent authorities had not imposed any penalty on the relevant companies, (ii) the notice promulgated by the Environmental Protection Bureau Administrative Office (環境保護部辦公處) and (iii) the written confirmations provided by the relevant competent environmental protection authorities on our compliance with environmental protection related regulations, our PRC legal advisers were of the view that the likelihood of us being penalised as a result of our historical failure to obtain the environmental qualification certificates is remote and that we are no longer required to obtain environmental qualification certificates. Accordingly, our Directors are of the view that such incidents will not result in any material adverse impact on our Group's business, financial condition and operation results.
Haian Hengfa, Rugao Hengfa and Rugao Honghao should have obtained the environmental qualification certificate after the original Measures for the License Administration of Qualification for Operation of Environment Pollution Treatment Facilities (《環境污染處理設施運營資質許可管理辦法》) was issued in December 2004 and the operation of the facilities respectively.			Haian County Environmental Protection Bureau and Rugao City Environmental Protection Bureau had confirmed to us in writing that the construction, production and operation of our wastewater treatment facilities have been in compliance with the environmental protection regulations. For more details, please refer to the paragraph headed "Environmental Compliance — Environmental Qualification Certificate" in this section.	
			Enhanced internal control measures have been adopted to raise awareness of and ensure compliance with relevant laws and regulations. Please refer to the paragraph headed "Legal and Regulatory Compliance — Enhanced Internal Control Measures" in this section for details.	

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Haian Hengfa and Rugao Hengfa had failed to complete the upgrade of the Haian Hengfa Facility and the Rugao Hengfa Facility, respectively, to meet the prescribed discharge standards within the prescribed timeframe set out in the Notice of Assigned Tasks of Haian Government (《海安縣人民政府對交辦事項通知單》) and the Notice Relating to the Upgrade of Wastewater Treatment Facilities (《關於現有污水處理設施提標改造的通知》) promulgated by Haian government and Rugao City Environmental Protection Bureau respectively.	The relevant notices were promulgated in 2013 by Haian government and the Rugao City Environmental Protection Bureau (如皋市環境保護局), respectively and the prescribed timeframe for the completion of such upgrade was ended of November 2013 and end of 2013, respectively. The period allowed for the planning, approval and implementation of the upgrade was practically insufficient.	Our PRC legal advisers advised us that, according to the applicable PRC laws and regulations, the failure in completing the prescribed facility upgrades within the prescribed period may give rise to a maximum fine of an amount not exceeding five times the pollutants discharge fees and other administrative penalties including mandatory reduction of discharge of pollutants, mandatory suspension of operations or mandatory closure of the facility. For the year ended 31 December 2013, we paid an aggregate of approximately RMB0.6 million for pollutants discharge fees for the operation of the Haian Hengfa Facility and the Rugao Hengfa Facility. We expect the maximum aggregate pollutants discharge fees that will be payable by us for the relevant periods of this non-compliance incident, namely, from December 2013 to May 2014 with respect to the Haian Hengfa Facility, and from January 2014 to May 2014 with respect to the Rugao Hengfa Facility, would not exceed RMB0.6 million (the "Expected Maximum Aggregate Pollutants Discharge Fees"), being the aggregate pollutants discharge fees paid for the year ended 31 December 2013. Based on the Expected Maximum Aggregate Pollutants Discharge Fees, we estimate, and our PRC legal advisers concur, that the maximum fine that could be imposed on us as a result of this non-compliance incident will not exceed RMB3.0 million.	Haian Hengfa and Rugao Hengfa had commenced the design and other preparation for the upgrade of the Rugao Hengfa Facility. Haian County Environmental Protection Bureau (海安縣環保局), Nantong City Environmental Protection Bureau (南通市環境保護局) and Jiangsu Province Environmental Protection Department (江蘇省環保廳) had given Haian Hengfa written consent to continue conforming with the existing discharge standards pending the completion of the upgrade works that are currently being carried out on the Haian Hengfa Facility and will have to be completed by September 2014. We undertake to complete such upgrade works by September 2014. Rugao City Environmental Protection Bureau (如皋市環境保護局), Nantong City Environmental Protection Bureau (南通市環境保護局) and Jiangsu Province Environmental Protection Department (江蘇省環保廳) had given Rugao Hengfa written consent to extend the deadline for the upgrade of the Rugao Hengfa Facility and to allow the Rugao Hengfa Facility to continue conforming with the existing Class 1-B discharge standards prior to 31 December 2014. We undertake to complete such upgrade works by 31 December 2014. Our PRC legal advisers were of the view that the aforesaid extensions had retrospective effect.	Having considered the written consents given by the competent government authorities to us to extend the time limit for completing the upgrades and/or continue conforming with existing discharge standards, our PRC legal advisers were of the view that such extensions had retrospective effect and the likelihood of us being penalised for our historical failure to conform with Class 1-A discharge standards is remote. Accordingly, our Directors were of the view that such incidents will not result in any material adverse impact on our Group's business, financial conditions and operation results.
Haian Hengfa and Rugao Hengfa should have conformed with the Class 1-A discharge standards before the end of November 2013 and end of 2013, respectively, as stipulated in the notices issued by the local government.				

BUSINESS

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Rugao Hengfa and Rugao Honghao had awarded construction contracts for the construction of the Rugao Hengfa Facility and the Rugao Honghao Facility, respectively, to contractors in 2009 and 2010, respectively, without conducting any open tender.	Primarily due to the inadvertence of and the lack of awareness on the part of our administration staff in respect of the operational, legal and regulatory requirements relating to construction project tendering.	<p>Our PRC legal advisers advised us that, according to the applicable PRC laws and regulations, failure in conducting open tender prior to awarding construction contracts for wastewater treatment facilities construction may give rise to a maximum fine of an amount equivalent to 1% of the total consideration of any such construction contract.</p> <p>An aggregate amount of RMB134.0 million was paid to contractors for the construction of the Rugao Hengfa Facility and the Rugao Honghao Facility, based on which, we estimate, and our PRC legal advisers concur, the maximum aggregate fine that could be imposed on us for such non-compliance incident amounts to approximately RMB1.3 million.</p> <p>Our PRC legal advisers also advised us that, according to the applicable PRC laws and regulations, such non-compliance incident may give rise to administrative disciplinary measures, including issuance of warning, record of demerit or major demerit, demotion, removal of office and discharge of duties, to be imposed on the person directly responsible for the tender. Although the person directly responsible for the tender of the Rugao Hengfa Facility and the Rugao Honghao Facility was Mr. Chan, our PRC legal advisers advised us that such administrative disciplinary measures are customarily applicable to government or state appointed officers only.</p>	<p>Rugao City Tendering Management Office (如皋市招标投标管理办公室) had confirmed to us verbally that considering the subject matter of the construction, the completion timeframe of our projects and the local enforcement practice, no administrative penalties will normally be imposed on us.</p> <p>Enhanced internal control measures, including detailed procurement and tendering procedures, have been adopted to avoid recurrence of such non-compliance incident. Please refer to the paragraph headed "Legal and Regulatory Compliance — Enhanced Internal Control Measures" in this section for details.</p>	<p>Having considered (i) that the competent authority had not imposed any penalty on the relevant companies, and (ii) the confirmation provided by the competent authority, our PRC legal advisers were of the view that the likelihood of us being penalised for such non-compliance incidents is remote. Accordingly, our Directors were of the view that such incidents will not result in any material adverse impact on our Group's business, financial condition and operation results.</p> <p>On the basis that the relevant competent authorities had confirmed no administrative penalties will normally be imposed on the respective companies for such non-compliance incident given the subject matter of the construction, the completion timeframe of our projects and the local enforcement practice, and the fact that the relevant administrative disciplinary measures are customarily applicable to government or state appointed officers only, our PRC legal advisers were of the view that the likelihood of Mr. Chan being penalised by virtue of responsibility for the same non-compliance incidents is remote.</p>

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Each of Haian Hengfa, Rugao Hengfa and Haian Property had, on an ongoing basis during the years ended 31 December 2011, 2012 and 2013, and the five months ended 31 May 2014, maintained current account balances with other subsidiaries, our related parties, acquaintances or an affiliate of our Group's shareholders and a subsidiary of one of our customers, all of which are separate legal entities. As advised by our PRC legal advisers, such current account balances maintained with the separate legal entities constituted lending to such separate legal entities that contravened the Lending General Provisions (貸款通则) issued by the PBOC, which states that non-banking institutions are prohibited from engaging in any lending business in the PRC. For the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2014, the aggregate lending to the aforementioned parties amounted to approximately HK\$66.9 million, HK\$31.4 million, HK\$21.8 million and HK\$0.2 million, respectively, which were non-interest bearing. In addition, for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2014, we provided an interest bearing loan (the "Interest Bearing Loan") that amounted to nil, RMB20.0 million (equivalent to approximately HK\$24.8 million), nil and nil, respectively, to an indirectly wholly-owned subsidiary of one of our customers.	<p>The advances to our Group's subsidiaries and our related parties were made available due to the re-allocation of financial resources among the private group of companies controlled by our Controlling Shareholders.</p> <p>The advances to acquaintances and an affiliate of our Group's shareholders were granted based on goodwill and the relationship of our Group's shareholders with them.</p> <p>In addition, Rugao City New Infrastructure Investment Company Limited (如皋市新區基礎設施投資有限公司), a subsidiary of one of our customers, requested an advance from us for their short term funding needs and we granted the advance based on goodwill and our good working relationship with them.</p> <p>Primarily an inadvertence of our finance staff for failing to appreciate the current account balances maintained and the advances constituted lendings that were prohibited under the relevant law.</p>	<p>Our PRC legal advisers advised us that, according to the applicable PRC laws and regulations, unauthorised lending activities by a lending party may give rise to a maximum fine of an amount equivalent to five times the income resulting from the unauthorised lending. The total amount of interest income resulting from the Interest Bearing Loan was RMB1.4 million, based on which, we estimate, and our PRC legal advisers concur, that the maximum fine for such non-compliance incident is approximately RMB7.0 million.</p>	<p>All relevant loans had been fully repaid as at the Latest Practicable Date.</p> <p>We have also adopted a policy to (i) prohibit any lending and advances by any subsidiary in our Group, and (ii) require all lending transactions and advances by any subsidiary in our Group to be pre-approved by our chief financial officer and compliance officer, Mr. Lui Hin Weng, Samuel, who should seek legal advice with respect to any such lending and advances prior to granting such approvals.</p> <p>Please refer to the paragraph headed "Legal and Regulatory Compliance — Enhanced Internal Control Measures" in this section for details.</p>	<p>Having considered that (i) all the subsidiaries extended by our PRC lendings had been fully repaid as at the Latest Practicable Date, and (ii) except for the Interest Bearing Loan, the lendings engaged by our Group were non-interest bearing and hence there was no unauthorised income from such lending activities except for the Interest Bearing Loan, our PRC legal advisers were of the view that the likelihood of us being penalised for such non-compliance incidents is remote. Accordingly, our Directors were of the view that such incidents will not result in any material adverse impact on our Group's business, financial condition and operation results.</p>

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
<ul style="list-style-type: none"> Rugao Hengfa had failed to obtain the construction land use planning permit prior to commencing construction of phase II of the Rugao Hengfa Facility in 2009. 	<p>Primarily an inadvertence of our administration staff for failing to appreciate that the legal requirements to obtain the relevant permits remained applicable with respect to the construction of the Rugao Hengfa Facility and the Rugao Honghao Facility despite our Group not holding the land use rights certificates and building ownership certificates with respect to the properties comprising the Rugao Hengfa Facility and the Rugao Honghao Facility.</p>	<p>Our PRC legal advisers advised us that, according to the applicable PRC laws and regulations, failure in obtaining construction land use planning permit, construction work commencement permit prior to commencement of construction may give rise to administrative penalties, including imposition of a maximum fine of (i) not more than 10% of total construction costs for the lack of construction work planning permit, and (ii) not more than 2% of total construction costs for the lack of commencement of construction work permit, invalidation of other approvals and permits relating to the construction works, forfeiture of the relevant land parcels, mandatory suspension of the construction works and rectification and mandatory orders of demolition of relevant constructed buildings.</p>	<p>As at the Latest Practicable Date, we had already obtained the construction land use planning permit for phase II of the Rugao Hengfa Facility, and the construction land use planning permit, commencement of construction work permit and construction work planning permit for the Rugao Honghao Facility.</p>	<p>Having considered (i) the confirmation provided by the competent authority, and (ii) that we had already obtained the construction land use planning permit for phase II of the Rugao Hengfa Facility and the construction land use planning permit, commencement of construction work permit and construction work planning permit for the Rugao Honghao Facility, our PRC legal advisers were of the view that the likelihood of Rugao Hengfa and Rugao Honghao being penalised for such historical non-compliance incidents is remote. Accordingly, our Directors were of the view that such incidents will not result in any material adverse impact to our Group's business, financial condition and operation results.</p>
<ul style="list-style-type: none"> Rugao Honghao had failed to obtain construction land use planning permit, construction work planning permit and commencement of construction work permit prior to commencing construction of the Rugao Honghao Facility in 2010. 	<p>An aggregate amount of RMB27.6 million was paid for the construction of the Rugao Honghao Facility, based on which we estimate, and our PRC legal advisers concur, the maximum aggregate fine that could be imposed on us for such non-compliance incident amounts to approximately RMB3.3 million.</p>	<p>Rugao ETDDZ Planning and Construction Bureau (如皋經濟技術開發區規劃建設局) confirmed to us verbally that it will not normally impose administrative penalties on Rugao Hengfa and Rugao Honghao for its historical non-compliance.</p> <p>Enhanced internal control measures have been adopted to avoid recurrence of such non-compliance incident. Please refer to the paragraph headed "Legal and Regulatory Compliance — Enhanced Internal Control Measures" in this section for details.</p>		

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
<p>Failed to make adequate contribution to certain employees' social security insurance based on the actual income of the respective employees of Rugao Hengfa in accordance with the PRC Social Insurance Law (《中華人民共和國社會保險法》) on an ongoing basis during the years ended 31 December 2011, 2012 and 2013.</p>	<p>Primarily due to certain employees' reluctance to contribute to the social security insurance according to their actual income, which requires contribution from both the employer and the employees, and our administration staff had inadvertently failed to seek adequate advice from legal advisers in respect of PRC labour and social protection related laws and regulations when dealing with such circumstances.</p>	<p>Our PRC legal advisers advised us that, according to the applicable PRC laws and regulations, the failure in making due payments for employees' social security insurance may give rise to a daily default interest rate of 0.05% and a maximum fine of no more than three times the unpaid contribution amount.</p> <p>The aggregate shortfall during the Track Record Period amounted to approximately RMB280,000. Accordingly, the maximum aggregate amount of fine, excluding default interest, that could be imposed on us for such non-compliance incident amounted to approximately RMB840,000. The maximum aggregate default interest payable by us for such non-compliance incident during the Track Record Period amounted to approximately RMB92,000.</p>	<p>Since 1 January 2014, Rugao Hengfa has been making adequate contribution to all its employees' social security insurance based on their respective actual income in accordance with the PRC Social Insurance Law (《中華人民共和國社會保險法》).</p> <p>We attempted, but was not allowed by the relevant government department, to retrospectively settle the historical shortfall amounts.</p> <p>Rugao Labour and Social Security Bureau (如皋市勞動和社會保障局) had (i) confirmed to us in writing that there was no outstanding social security insurance contribution from Rugao Hengfa, (ii) acknowledged verbally Rugao Hengfa's failure to pay adequate contribution for certain employees' social security insurance, and (iii) confirmed to us verbally that they will not normally impose any penalty for such non-compliance incident.</p> <p>Enhanced internal control measures have been adopted to avoid recurrence of such non-compliance incident. Please refer to the paragraph headed "Legal and Regulatory Compliance — Enhanced Internal Control Measures" in this section for details.</p>	<p>Having considered (i) the confirmations provided by the competent authority, and (ii) the fact that Rugao Hengfa had not received any complaints or payment request from the relevant employees or any other organisations as at the Latest Practicable Date, our PRC legal advisers were of the view that the likelihood of us being penalised in respect of such non-compliance incident is practically remote. Accordingly, our Directors were of the view that such incidents will not result in any material adverse impact on our Group's business, financial condition and operation results.</p>

Nature and Timing of Non-Compliance Incident	Reasons for Non-Compliance Incident	Legal Consequences and Potential Maximum Penalties	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Failed to make adequate contribution to certain employees' housing provident funds based on the actual income of the respective employees of Rugao Hengfa in accordance with Housing Provident Funds Management Law (《住房公积金管理条例》) on an ongoing basis during the years ended 31 December 2011, 2012 and 2013.	Primarily due to certain employees' reluctance to contribute to the housing provident funds according to their actual income, which requires contribution from both the employer and the employees, and our administration staff had inadvertently failed to seek adequate advice from legal advisers in respect of PRC labour and social protection related laws and regulations when dealing with such circumstances.	Our PRC legal advisers advised us that, according to the applicable PRC laws and regulations, the failure in making due payments for housing provident funds may give rise to the relevant employees or authorities demanding full payment of the shortfall by Rugao Hengfa. The aggregate shortfall amounted to approximately RMB70,000 during the Track Record Period.	Since 1 January 2014, Rugao Hengfa has been making adequate contribution to all its employees' housing provident funds based on their respective actual income in accordance with the Housing Provident Funds Management Law (《住房公积金管理条例》). We settled the shortfall amount for the year ended 31 December 2013. We attempted, but was not allowed by the relevant government department, to retrospectively settle the historical shortfall amounts prior to 2013. Rugao Administration of Nantong City Housing Provident Fund Management Centre (南通市住房公积金管理中心如皋管理部) had (i) confirmed to us in writing that there was no outstanding housing provident fund contribution from Rugao Hengfa, (ii) verbally acknowledged Rugao Hengfa's failure to pay adequate contribution for certain employees' housing provident funds, and (iii) confirmed to us verbally that they will not normally impose any penalty on Rugao Hengfa. Enhanced internal control measures have been adopted to avoid recurrence of such non-compliance incident. Please refer to the paragraph headed "Legal and Regulatory Compliance — Enhanced Internal Control Measures" in this section for details.	Having considered (i) the confirmations provided by the competent authority, and (ii) the fact that Rugao Hengfa had not received any complaints or payment request from the relevant employees or any other organisations as at the Latest Practicable Date, our PRC legal advisers were of the view that the likelihood of us being penalised in respect of such non-compliance incident is practically remote. Accordingly, our Directors were of the view that such incidents will not result in any material adverse impact to our Group's business, financial condition and operation results.

BUSINESS

Our PRC legal advisers has advised us that, as at the Latest Practicable Date, save as disclosed in this section, we had obtained all the material licences and certificates for the operations of each of our projects.

Provision for Potential Penalties

During the Track Record Period and up to the Latest Practicable Date, we had not been penalised for any of the non-compliance incidents detailed in the paragraph headed “Legal and Regulatory Compliance” in this section. To the extent applicable, we had fully rectified all the aforementioned non-compliance incidents as at the Latest Practicable Date. Furthermore, our PRC legal advisers had advised us that the likelihood of us being penalised as a result of any of our historical non-compliance incidents is remote. Based on the above, and having assessed all the available evidences as disclosed in this paragraph, our Directors concluded that it was not probable that an outflow of resources embodying economic benefits will be required in connection with such historical non-compliance incidents and, accordingly, no provision for the penalties that may arise from any non-compliance incident was made during the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014.

Suitability for Listing

Having considered the facts and circumstances leading to the non-compliance incidents and the remedial actions taken as disclosed in this section and also our measures to avoid future non-compliance incidents as detailed in the section below, our Directors are of the view, and the Sponsor concurs, that these past non-compliance incidents do not involve any dishonesty or fraud on the part of our Directors or cast any doubt on their integrity or competence and do not affect their suitability to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules and the suitability for listing of our Company under Rule 8.04 of the Listing Rules.

Indemnification

Our Controlling Shareholders have agreed to indemnify us for all the losses and damages suffered by us as a result of our failure to have obtained, or our failure to obtain or maintain any approvals, permits, licences and certificates required for our operations or any other non-compliance incidents, prior to Listing as disclosed in the paragraph headed “Legal and Regulatory Compliance” in this section.

Enhanced Internal Control Measures

Specific undertakings and measures adopted to prevent future non-compliance incidents

Our Directors confirmed that they had no intention to breach any applicable laws at the time when the above non-compliance incidents occurred and had subsequently adopted all enhanced internal control measures. The non-compliance incidents were primarily caused by insufficient advice sought and the lack of expertise with regard to the requirements under the applicable laws and

BUSINESS

regulations. Our Directors took each incident seriously. Since March 2014, we have been putting in place a number of measures to prevent the recurrence of similar non-compliance incidents in the future, which are detailed below. Our Company also specifically undertakes to take certain actions, which are detailed below, to avoid recurrence of certain non-compliance incidents.

Non-compliance in respect of PRC and Hong Kong corporate procedures

Our general and administration department prepares and maintains (i) a list of legal requirements that need to be complied with, and (ii) a list of the required documentations that need to be submitted or presented to the relevant government authorities or to shareholders for review and/or approvals for incorporating new subsidiaries and for maintaining existing subsidiaries.

Non-compliance in respect of procurement, environmental protection, labour and social security related regulations

- (a) We have established formal tendering procedures in respect of the construction and procurement for all our wastewater treatment facilities under which the selection and engagement of our contractors or suppliers for construction projects or major procurement orders shall be conducted through tendering.
- (b) Our general and administration department maintains a business unit establishment checklist and a log for all licences, permits and certificates that are necessary for our wastewater treatment operations for each of our operating subsidiaries to monitor the existence and expiry of such licences and certificates.
- (c) Our general and administration department maintains a log of all employees and their wage levels to determine the amount payable by our Group for their social security insurance and housing provident funds to ensure prompt and full payment of such contributions.

Future lending to third parties and future borrowing

- (a) We have adopted an internal policy that prohibits lending of any amount by any of our PRC subsidiaries to any person, including other members of our Group, our Controlling Shareholders and other related parties.
- (b) All lending transactions by our Company and any of our non-PRC subsidiaries shall be pre-approved by our compliance officer who will seek external legal advice to approve only those transactions that are legal and compliant under the applicable laws and regulations.

BUSINESS

- (c) We are establishing a system under which any subsidiary in need of funds is required to make an application for borrowing to chief accountant for review and approval, and such application will need to be counter-approved by our compliance officer. Our finance department will monitor the fund flow of each subsidiary on a monthly basis by reviewing the reports submitted by the finance department of each subsidiary and cross-check the balance set out in the monthly report against the balance at the relevant bank account. This could help identify any suspicious or non-approved lending transactions, in particular, any large amount of money going out to other parties.

Property related compliance issues

Our general and administration department maintains a list of required constructions permits, construction work planning permits and building ownership certificates that need to be obtained from the relevant government authorities. The personnel of the engineering department must proceed to obtain the required permits and certificates set out in the list before commencing construction.

Other general measures for enhancing our internal control and legal compliance

To ensure our on-going compliance with applicable laws and regulations, we have retained King & Wood Mallesons as our PRC legal advisers to advise us and provide our Directors and senior management legal training annually on the legal and regulatory requirements applicable to our operations and other compliance related matters arising from our ordinary course of business in the PRC after Listing. We have also engaged Michael Tam & Co. in association with Berwin Leighton Paisner (HK) LLP as our Hong Kong legal advisers to advise us on application of Hong Kong laws and regulations to our Group after Listing.

We have appointed Mr. Lui Hin Weng Samuel, our chief financial officer, as our compliance officer to oversee our Group's compliance with applicable Hong Kong and PRC laws and regulations. Please refer to the section headed "Directors and Senior Management — Senior Management" in this prospectus for details of the qualifications of Mr. Lui. With the help of our compliance adviser and our external legal advisers, our compliance officer will conduct on-going assessments in response to new legal and regulatory requirements, update compliance and internal control procedures and oversee their implementation. Before embarking on a new BOT project, our compliance officer, with the assistance of legal advisers, shall prepare a report detailing all necessary licences, approvals and permits required for conducting operations which will then be submitted to our Board for consideration. Our compliance officer will also compile and submit a compliance report to the Board on a quarterly basis, highlighting any material changes in the legal and regulatory requirements as advised by our external counsels, any update, development or material issues relevant to our compliance with any applicable laws and regulations, including but not limited to the progress of the upgrade works of the Haian Hengfa Facility and the Rugao Hengfa Facility.

BUSINESS

We have appointed Quam Capital as our compliance adviser to advise us on compliance matters in accordance with Rule 3A.19 of the Listing Rules.

Our Directors have attended training sessions on obligations, duties and responsibilities of directors conducted by our legal advisers. They understand their duties and responsibilities as Directors.

We have engaged a professional internal controls consultant to perform an agreement upon procedure review, which commenced on 16 December 2013, on our internal control system and provide recommendations for improving our internal control system. We have taken measures to rectify the deficiencies based on the findings of the review. We have adopted all recommendations made by the internal control consultant on our Group's procedures, systems and controls relating to fulfillment of our obligations under the Listing Rules and other relevant legal and regulatory requirements by March 2014. The internal control consultant completed a follow-up review in March 2014 to review the status of the remedial actions taken by the management from December 2013 to January 2014 and noted that we have implemented such procedures, systems and controls which provide a reasonable basis to enable our Directors to make a proper assessment of the financial position and prospects of our Group. Having considered the above, our Directors (including our independent non-executive Directors) are of the view that our internal controls are adequate and effective.

Separately, we have engaged BDO Financial Services Limited to perform an internal control review, which commenced on 23 June 2014, on the enhanced internal control measures adopted by our Group to prevent future non-compliance incidents as disclosed on the paragraphs headed "Legal and Regulatory Compliance" and "Enhanced Internal Control Measures" in this section. The internal control consultant was of the opinion that, as at 30 June 2014, our Group's aforesaid enhanced internal control measures were adequate and effective, in all material respects, to prevent the re-occurrence of non-compliance incidents under review.

Adequacy of enhanced internal control measures

Having considered the above, our Directors (including our independent non-executive Directors) and the Sponsor consider that our enhanced internal control measures are adequate and effective to ensure compliance with the applicable legal and regulatory requirements.

LEGAL PROCEEDINGS

During the Track Record Period and as at the Latest Practicable Date, we were not involved in any litigation, arbitration or administrative proceedings and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that we believe would have a material adverse effect on our financial condition or results of operations or reputation.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Share Offer (but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option that may be granted under the Share Option Scheme), Ms. Wong, Ms. Chan and Mr. Chan, will, through Everbest Environmental, hold approximately 46.9% in aggregate of the issued share capital of our Company and Mr. Chau will, through his 90% shareholding interest in Wealthy Sea, hold approximately 28.1% of the issued share capital of our Company. Therefore, each of Ms. Wong, Ms. Chan, Mr. Chan, Everbest Environmental, Mr. Chau and Wealthy Sea is a controlling shareholder (as defined in the Listing Rules) of our Company upon Listing. Please refer to the sections headed “History, Reorganisation and Corporate Structure” and “Directors and Senior Management” in this prospectus for further information.

Each of our Controlling Shareholders and our Directors has confirmed that he/she/it does not have an interest in a business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Management Independence

All of our Directors and members of senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company. Please refer to the section headed “Directors and Senior Management” in this prospectus for details.

Each of our Directors is aware of his/her fiduciary duties as a Director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Group and does not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team to make business decisions independently. Our independent non-executive Directors will also bring independent judgment to the decision-making process of our Board.

Based on the above, our Directors are of the view that our Board, as a whole, together with our senior management team, is able to perform its managerial role in our Group independently of our Controlling Shareholders.

Operational Independence

We have full control over our major assets to continue our business independently of our Controlling Shareholders. We do not rely on our Controlling Shareholders for any material amount of our revenue, technology, staffing or marketing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors and senior management are responsible for the conduct of our business. We have established our own organisational structure made up of functional departments, each with specific areas of responsibility. We have also established a set of internal controls to facilitate the effective operation of our business.

Transactions with members of our Controlling Shareholders are governed by agreements entered into in the ordinary course of our business and on terms which we believe are fair and reasonable. These transactions with our Controlling Shareholders and their respective associates have in the past included a sub-lease of commercial premises by an associate of certain of our Controlling Shareholders to our Group for use as offices, which is expected to continue after the Listing. The sub-lease may be terminated at the option of our Group at any time prior to the expiry of such agreement by giving 30 days' notice to sub-lessor. As such, we enjoy the flexibility to relocate to another site or premise at any time should we consider the relevant office premises no longer suitable for our use. Please refer to the section headed "Connected Transaction" in this prospectus for details. In the event that we are unable to renew such sub-lease on reasonable terms, we are entitled to choose a third party who can provide alternative premises on comparable terms. Leases for comparable commercial premises are widely available in the market and the aforementioned sub-lease may be readily replaced with leases for similar properties should we fail to renew the sub-lease on reasonable terms. As such, we consider that the sub-lease is not material to our Group's business operations.

Our Directors are therefore of the view that we had been operating independently of our Controlling Shareholders during the Track Record Period and will continue to do so.

Financial Independence

As at 31 May 2014, our Company had a loan of HK\$13.7 million with Chiyu Banking Corporation Limited, where Ms. Wong and Mr. Chan, two of our Controlling Shareholders, and their associates acted as guarantors. The loan is also secured by properties owned by Ms. Wong and her associate. It is expected that such guarantees and security will be released upon Listing. Upon discharge of such guarantees and security, our Group is expected to operate our finances independently of our Controlling Shareholders and their respective associates, and will cease to be involved in any financing arrangement between our Company of the one part and our Controlling Shareholders and their respective associates of the other part.

In addition, we have an independent financial system and finance team which is responsible for our own treasury function, cash receipts and payments, and independent access to third party financing.

All amounts due to and from the companies controlled by our Controlling Shareholders, including any guarantees and indemnities provided by our Controlling Shareholders for our benefit or vice versa, will be released or fully settled prior to or upon Listing. Accordingly, we believe that we are able to maintain financial independence from our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

In order to avoid potential conflicts of interests between our Controlling Shareholders and our Company, each of our Controlling Shareholders has entered into a deed of non-competition in favour of our Group on 5 September 2014 (the “**Deed of Non-competition**”), pursuant to which each of them unconditionally and irrevocably agrees, undertakes to and covenants with our Company (for itself and for the benefits of each other member of our Group) that it would not, and would procure that its associates (other than any members of our Group) would not, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any activity or business which competes or is likely to compete, directly or indirectly, with the business of operating wastewater treatment facilities in the PRC by our Group as described in this prospectus and any other business from time to time conducted, carried on or contemplated to be carried on by any member of our Group or in which any member of our Group is engaged or has invested or which any member of our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) (the “**Restricted Business**”).

Each of our Controlling Shareholders has further unconditionally and irrevocably agreed, undertaken to and covenanted with our Company to procure that any business investment or other commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Business (the “**New Opportunities**”) given, identified or offered to it and/or any of its associates (other than any members of our Group) (the “**Offeror**”) is first referred to us in the following manner:

- each of our Controlling Shareholders is required to, and shall procure its associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunities to us, and shall give written notice to us of any New Opportunities containing all information reasonably necessary for us to consider whether (a) such New Opportunities would constitute competition with our core business, and (b) it is in the interest of our Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the “**Offer Notice**”); and
- the Offeror will be entitled to pursue the New Opportunities only if (i) the Offeror has received a notice from us declining the New Opportunities and confirming that such New Opportunities would not constitute competition with our core business; or (ii) the Offeror has not received such notice from us within 10 Business Days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to us in the manner as set out above.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Upon receipt of the Offer Notice, we shall seek opinions and decisions from our independent non-executive Directors who do not have a material interest in the matter as to whether (i) such New Opportunities would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunities.

In order to promote good corporate governance practices and to improve transparency, each of our Controlling Shareholders undertakes with our Company in the Deed of Non-Competition the following:

- (i) to provide all information requested by our Company which is necessary for an annual review by our independent non-executive Directors of its compliance with the Deed of Non-Competition and the enforcement of the Deed of Non-Competition;
- (ii) to procure our Company to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition either through the annual report, or by way of announcements to the public; and
- (iii) to make an annual declaration on compliance with their undertaking under the Deed of Non-Competition in the annual reports of our Company as our independent non-executive Directors think fit and/or as required by the relevant requirements under the Listing Rules.

The aforesaid undertakings do not apply with respect to (i) the holding of or interests in the shares of any member of our Group, or (ii) the holding of or interests in shares of any company (other than members of our Group) whose shares are listed on the Stock Exchange or a stock exchange recognised by the Stock Exchange or the SFC provided that (a) the relevant Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated revenue or consolidated assets, as shown in that company's latest audited accounts, or (b) such holding of or interests in shares does not exceed 5% of the outstanding voting shares of the relevant company, provided that none of our Controlling Shareholders, or their respective associates (other than members of our Group), whether acting singly or jointly, has any right to appoint a majority of the board of directors of such company and at any time there should exist at least another shareholder of such company (together, where appropriate, with its associates) whose shareholdings in such company is more than the total number of shares held by our Controlling Shareholders in aggregate and/or their associates in aggregate in such company.

The Deed of Non-Competition will take effect upon Listing and will lapse automatically (in respect of the relevant party) if (i) the Shares cease to be listed on the Stock Exchange or any other stock exchange recognised by the Stock Exchange or the SFC, (ii) our Company becomes wholly-owned by our Controlling Shareholders and/or their respective associates (whether individually or collectively), or (iii) all of the Controlling Shareholders cease to be controlling shareholders (as defined in the Listing Rules) of our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage any possible conflict of interests arising from the possible competing business of our Controlling Shareholders and our Directors, if any, and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- (ii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition by our Controlling Shareholders in the annual reports of our Company;
- (iii) in the event that connected transactions, if any, between our Group and other business in which any of our Directors or their respective associates has any interest are submitted to the Board for consideration, the relevant interested Director will not be counted in the quorum and will abstain from voting on such matters, and majority votes by non-conflicted Directors are required to decide on such connected transactions; and
- (iv) pursuant to the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice in appropriate circumstances at our Company's cost.

CONNECTED TRANSACTION

We have entered into the following transaction with our connected person which will continue after Listing, thereby constituting continuing connected transaction for our Company under the Listing Rules.

OUR CONNECTED PERSONS

Following Listing and under Chapter 14A of the Listing Rules, our connected persons include, among others, (i) our Directors and their respective associates, and (ii) the substantial shareholders of our Company and their respective associates.

EXEMPT CONTINUING CONNECTED TRANSACTION

Everbest Water Treatment Development, a wholly-owned subsidiary of our Company, have sub-leased the commercial premises located at Units 1-3, 11th Floor, Westlands Centre, 20 Westlands Road, Hong Kong (the “**Office Premises**”) for use as offices from Dragonfield Management Limited (“**Dragonfield**”) and will continue to sub-lease such premises after Listing. No rental fee was paid by our Group to Dragonfield during the Track Record Period. On 5 September 2014, we entered into a commercial premises sub-lease agreement with Dragonfield (the “**Sub-lease Agreement**”) for our continuing use and occupation of the Office Premises after Listing. The sub-lease allows us to maintain stable operation of our Group.

Dragonfield is held as to 50% by Mr. Chan Chun Keung (a family member of certain of our Controlling Shareholders) and 50% by Flying Gain Holdings Limited, an associate of each of Ms. Wong, Ms. Chan, Mr. Chan and Mr. Chan Pak Lam Brian. Accordingly, Dragonfield is an associate of certain of our Controlling Shareholders and two of our Directors and therefore a connected person of our Company under the Listing Rules. As such, the Sub-lease Agreement will constitute a continuing connected transaction under the Listing Rules for our Company upon Listing. The landlord of the Office Premises is an Independent Third Party.

Pursuant to the terms of the Sub-lease Agreement, the term of the sub-lease is effective, retrospectively, from 27 August 2014 to 26 August 2016 and the rental payment shall be HK\$276,000 per annum inclusive of expenses in relation to rates and property management fees, such rent being payable on a monthly basis and shall not be increased during the term. The rental rate was determined after arm’s length negotiations between Everbest Water Treatment Development and Dragonfield with reference to the rental rate of the lease to Dragonfield by the landlord.

The Sub-lease Agreement may be terminated at the option of our Group at any time prior to the expiry of such agreement by giving 30 days’ notice to Dragonfield. As such, we enjoy the flexibility to relocate to another site or premises at any time should we consider the Office Premises no longer suitable for our use.

Notwithstanding the foregoing, upon the termination or expiry of the lease agreement (the “**Head Lease Agreement**”) between Dragonfield and the landlord of the Office Premises (in which case the

CONNECTED TRANSACTION

Sub-lease Agreement will also be terminated), and the termination of the Sub-lease Agreement by Dragonfield, Dragonfield shall provide our Group alternate premises of at least similar size as the Office Premises, and at terms and conditions not less favourable than those set out in the Sub-lease Agreement for the rest of term.

The Head Lease Agreement has a two-year term that commenced on 27 September 2012 and ending on 26 September 2014. As at the Latest Practicable Date, the Head Lease Agreement had not been renewed. To the best knowledge of our Directors, Dragonfield is in advanced negotiations with the landlord of the Office Premises to renew the Head Lease Agreement and it is expected that the Head Lease Agreement to be renewed prior to its expiry date on 26 September 2014 for another two-year term to end on 26 September 2016. The Company undertakes to issue an announcement as soon as practicable if the Head Lease cannot be renewed after the expiry date on 26 September 2014. On 5 September 2014, the Controlling Shareholders have given an indemnity in favour of our Company against all losses of whatever nature (including but not limited to relocation costs) that may be suffered or incurred by us as a result of any non-performance, violation or breach by Dragonfield of any terms and provisions of the Sub-lease Agreement, including their failure to renew the Head Lease Agreement and continue sublet to us the Office Premises. Therefore, we consider the failure to renew the Head Lease will not have any material adverse impact on our Group's financial position and operations. Please refer to the section headed "Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts" in Appendix IV to this prospectus.

As each of the applicable percentage ratios (as defined in the Listing Rules) (other than the profit ratio) in respect of the Sub-lease Agreement is less than 0.1%, the transaction contemplated therein is exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.76(i) of the Listing Rules.

The Sub-lease Agreement is renewable at the option of our Group by giving Dragonfield written notice of at least 30 days prior to its expiry. In the event that we renew the Sub-lease Agreement, we will ensure that we comply with the applicable provisions under Chapter 14A of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board consists of seven Directors, of which there are two executive Directors, two non-executive Directors and three independent non-executive Directors.

The following table provides information about our Directors.

Name	Age	Position	Date of Appointment	Date of Joining our Group	Roles and Responsibilities
Chau On Ta Yuen ⁽¹⁾	66	Executive Director	18 March 2014	18 December 2002	Responsible for business development and strategic formulation and serving on the nomination committee
Chan Kwan ⁽²⁾	32	Executive Director	25 February 2014	23 March 2007	Responsible for all major affairs of our Group, including project construction and operation, business development, marketing and strategic formulation and serving on the nomination committee
Chan Pak Lam Brian ⁽¹⁾	26	Non-executive Director	18 March 2014	18 March 2014	Performing his duties as a non-executive director and serving on the remuneration committee
Chau Chi Yan Benny ⁽²⁾	32	Non-executive Director	18 March 2014	18 March 2014	Performing his duties as a non-executive director and serving on the audit committee
Ng Chung Yan Linda	38	Independent non-executive Director	5 September 2014	5 September 2014	Performing her duties as an independent non-executive director and serving on the audit, remuneration and nomination committees

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Appointment	Date of Joining our Group	Roles and Responsibilities
Ng Man Kung	63	Independent non-executive Director	5 September 2014	5 September 2014	Performing his duties as an independent non-executive director and serving on the audit, remuneration and nomination committees
Sze Yeuk Lung Benedict	44	Independent non-executive Director	5 September 2014	5 September 2014	Performing his duties as an independent non-executive director and serving on the audit, remuneration and nomination committees

Notes:

- (1) Mr. Chau is the father of Mr. Chau Chi Yan Benny, one of our non-executive Directors.
- (2) Mr. Chan is the brother of Mr. Chan Pak Lam Brian, one of our non-executive Directors.

Executive Directors

Mr. Chau On Ta Yuen (周安達源), aged 66, was appointed as our executive Director and Chairman on 18 March 2014 and is mainly responsible for business development and strategic formulation of our Group. Mr. Chau joined our Group in December 2002 as a director of Everbest Water Treatment Development. Mr. Chau is one of our Controlling Shareholders.

Mr. Chau obtained a bachelor's degree in Chinese language and literature from Xiamen University (廈門大學) in China in August 1968. Mr. Chau is currently a member of the 12th National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議), deputy officer of the Social and Legal Affairs Committee of the Chinese People's Political Consultative Conference (全國政協社會和法制委員會) and the vice chairman of the 9th board of directors of the Hong Kong Federation of Fujian Associations (香港福建社團聯會). Mr. Chau was awarded the Bronze Bauhinia Star by the Hong Kong government in 2010.

Mr. Chau has held directorship in various companies listed on the Stock Exchange. Mr. Chau has been an executive director of China Ocean Shipbuilding Industry Group Limited (stock code: 651) since September 2007, an independent non-executive director of Redco Properties Group Limited (stock code: 1622) since January 2014, an independent non-executive director of Sumpo Food Holdings Limited (stock code: 1089) since December 2010, an independent non-executive director of Come Sure Group (Holdings) Limited (stock code: 794) since February 2009, and an independent

DIRECTORS AND SENIOR MANAGEMENT

non-executive director of Good Fellow Resources Holdings Limited (stock code: 109) since July 2007. Mr. Chau had also been an executive director of Rosan Resources Holdings Limited (stock code: 578) from March 2000 to November 2006, an independent non-executive director of Hao Wen Holdings Limited (stock code: 8019) from June 2003 to August 2009, and an independent non-executive director of Buildmore International Limited (stock code: 108) from December 2008 to September 2010.

Mr. Chau is the father of Mr. Chau Chi Yan Benny, one of our non-executive Directors.

Mr. Chan Kwan (陳昆), aged 32, was appointed as our executive Director on 25 February 2014 and chief executive officer on 18 March 2014 and is mainly responsible for all major affairs of our Group, including project construction and operation, business development, marketing and strategic formulation. Mr. Chan is one of our Controlling Shareholders. Mr. Chan joined our Group in March 2007 as director of Everbest Water Treatment Development. Prior to joining our Group, Mr. Chan was a database administrator at Panda Restaurant Group, Inc. in Los Angeles, the United States, from February 2005 to December 2006.

Mr. Chan obtained a bachelor's degree in science from the Iowa State University of Science and Technology in the United States in December 2004. Mr. Chan is a member of the 11th Fujian Province Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省委員會), a standing committee member of the 8th board of directors of the Hong Kong Federation of Fujian Associations (香港福建社團聯會), the chief supervisor of the 9th Hong Kong Minxi Association Ltd. (香港閩西聯會), the vice-president of the 10th Supervision Committee of Lung Yen Residents Association of Hong Kong Limited (香港龍岩同鄉會), and the vice-president of the Hong Kong Federation of Overseas Chinese Youth Committee (香港華僑華人總會).

Mr. Chan did not hold any directorship in any listed companies in the three years immediately prior to the date of this prospectus.

Mr. Chan is the brother of Mr. Chan Pak Lam Brian, one of our non-executive Directors.

Non-Executive Directors

Mr. Chan Pak Lam Brian (陳柏林), aged 26, was appointed as our non-executive Director on 18 March 2014. Since March 2013, Mr. Chan Pak Lam Brian has been working as marketing and sales director at PT. Indoferro. Mr. Chan Pak Lam Brian has been involved in the business of our Group since September 2012 when he was appointed as director of Exuberant Legacy Holdings Ltd., a Hong Kong incorporated company which was intended by the then shareholders of Everbest Water Treatment Development to be used as the holding company for the purpose of the Listing. While serving as a director of Exuberant Legacy Holdings Limited, Mr. Chan Pak Lam Brian was involved in exploring business opportunities in the environmental-related industry within the larger Asia region, he was also responsible for the setting up and maintenance of our information technology system. Mr. Chan Pak Lam Brian continued to be involved in our Group's business after he was appointed as our Director on 18 March 2014.

Mr. Chan Pak Lam Brian obtained a bachelor's degree in arts from Purdue University in May 2011.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Pak Lam Brian did not hold any directorship in any listed companies in the three years immediately prior to the date of this prospectus.

Mr. Chan Pak Lam Brian is the brother of Mr. Chan, one of our executive Directors.

Mr. Chau Chi Yan Benny (周致人), aged 32, was appointed as our non-executive Director on 18 March 2014.

Prior to joining our Group, Mr. Chau Chi Yan Benny worked as international trade department manager of China Ocean Shipbuilding Industry Group Limited from February 2011 to August 2013, and business adviser at Vodafone Ltd in the United Kingdom from November 2005 to September 2008. Mr. Chau Chi Yan Benny is currently a consultant at Convoy Financial Services Limited.

Mr. Chau Chi Yan Benny obtained a bachelor's degree in arts from Manchester Metropolitan University in September 2005. Mr. Chau Chi Yan Benny is currently registered as a technical representative of the Professional Insurance Brokers Association.

Mr. Chau Chi Yan Benny did not hold any directorship in any listed companies in the three years immediately prior to the date of this prospectus.

Mr. Chau Chi Yan Benny is the son of Mr. Chau, one of our executive Directors.

Independent Non-Executive Directors

Ms. Ng Chung Yan Linda (伍頌恩), aged 38, was appointed as our independent non-executive Director on 5 September 2014.

Ms. Ng has been a director at Tseung & Ng (CPA) Limited since April 2012, prior to which she was the sole proprietor of Linda C.Y. Ng & Co., an accounting firm, from January 2008 to April 2013. Ms. Ng has also been a director at Futurelink Limited since February 2004, a director of Learning Is Fun Association Limited from June 2007 to June 2012, an author of Practical Guide to Financial Reporting Standards in Hong Kong published by CCH Hong Kong Limited since September 2013, a part-time lecturer at HKCA Learning Media Limited since August 2010, and a part-time lecturer at Accountancy Training Company (International) Limited from September 2007 to April 2010. Ms. Ng was a staff accountant at Ernst & Young from September 2000 to September 2001, and was later promoted to senior accountant in October 2001 until she left that firm in October 2002.

Ms. Ng obtained a master's degree in professional accounting from the Hong Kong Polytechnic University in October 2009 and a bachelor's degree in business administration from Hong Kong University of Science and Technology in November 1997. Ms. Ng has been a certified professional forensic accountant of The Institute of Certified Forensic Accountants since September 2011, a certified tax adviser and an associate of the Taxation Institute of Hong Kong since September 2010, a fellow of the Association of Chartered Certified Accountants since October 2005 and a practicing member of Hong Kong Institute of Certified Public Accountants since January 2005.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ng did not hold any directorship in any listed companies in the three years immediately prior to the date of this prospectus.

Mr. Ng Man Kung (吳文拱), aged 63, was appointed as our independent non-executive Director on 5 September 2014.

Mr. Ng is a business consultant of China Orient Asset Management (International) Holding Limited, a company principally engaged in investment, from August 2002. He worked at Chi Yu Banking Corporation Ltd. from July 1969 to December 2012, and was a chief executive from April 1992 to July 2012. Mr. Ng was an honorary president of the 37th Chinese Bankers Club, Hong Kong, a member of the Council of Hong Kong Polytechnic University from April 1999 to March 2003 and a member of the 10th Fujian Province Committee of the Chinese People's Political Consultative Conference.

Mr. Ng completed an extension course in banking at the Hong Kong Polytechnic University in September 1982.

Mr. Ng is also an independent non-executive director of Fujian Holdings Limited (stock code: 181) since June 2014.

Mr. Sze Yeuk Lung Benedict (施若龍), aged 44, was appointed as our independent non-executive Director on 5 September 2014.

Mr. Sze is currently the principal of Dacheng Law Offices. Mr. Sze obtained a degree of juris doctor from the Southwestern University in the United States in December 1999. Mr. Sze also obtained a master's degree in business administration and bachelor's degree in science from the Loyola Marymount University in the United States in December 1993 and May 1992, respectively.

Mr. Sze is qualified as a lawyer in the United States, Hong Kong as well as the PRC. In June 2000 he was admitted to the practice of law in the state of California and in the United States District Court of the Central District of California, and is currently a member of the State Bar of California. In September 2001, he was admitted to practise in the United States Court of Appeal for the ninth circuit. In March 2004, he was admitted as a Solicitor to the High Court of Hong Kong. In February 2008, he passed the National Judicial Exam of the People's Republic of China, and was granted qualification as a legal professional by the Ministry of Justice in the PRC, and in April 2014, he was admitted to the Bar of the Supreme Court of the United States.

Mr. Sze is a member of the All-China Federation of Returned Overseas Chinese (中華全國歸國華僑聯合會) (the "ACFROC"), a member of the legal advisory committee of the ACFROC (中國僑聯法律顧問委員會), an overseas legal adviser of the legal advisory committee of the ACFROC in Jiangsu Province (江蘇省僑聯法律顧問委員會), an overseas legal adviser of the ACFROC in Zhejiang Province (浙江省僑聯), a member of the 11th Fujian Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省委員會), a legal adviser of the Sy

DIRECTORS AND SENIOR MANAGEMENT

Clan Association of HK Limited (香港施氏宗親會), a voluntary legal adviser of the Hong Kong CPPCC of Fukien Province Members Association, a voluntary legal adviser of the Hong Kong Federation of Fujian Associations and a voluntary legal adviser of the 15th board of Hong Kong Federation of Jin Jiang Clans (香港晉江同鄉會).

Mr. Sze did not hold any directorship in any listed companies in the three years immediately prior to the date of this prospectus.

Save as disclosed above, there are no other matters concerning each of the Directors' appointment that need to be brought to the attention of our Shareholders and the Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

The following table provides information about the senior management of our Group.

Name	Age	Position	Date of appointment	Date of joining our Group	Roles and responsibilities
Chau On Ta Yuen ⁽¹⁾	66	Chairman	18 March 2014	18 December 2002	Responsible for business development and strategic formulation
Chan Kwan ⁽²⁾	32	Chief Executive Officer	18 March 2014	23 March 2007	Responsible for all major affairs of our Group, including project construction and operation, business development, marketing and strategic formulation
Lui Hin Weng Samuel	39	Chief Financial Officer	18 March 2014	28 December 2013	Responsible for the financial management and reporting, investor relations, fund raising and capital management of our Group, for assisting the chief executive office in strategic planning and business development and for overseeing our compliance with Hong Kong and PRC laws and regulations applicable to our operations

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment	Date of joining our Group	Roles and responsibilities
Wang Zili	51	Deputy General Manager, Haian Hengfa Facility	18 March 2014	25 February 2005	Responsible for overseeing operational matters related to the Haian Hengfa Facility
Zhou Yinbing	36	Deputy General Manager, Rugao Hengfa Facility	18 March 2014	1 February 2004	Responsible for overseeing operational matters related to the Rugao Hengfa Facility and the Rugao Honghao Facility

Notes:

- (1) Mr. Chau is the father of Mr. Chau Chi Yan Benny, one of our non-executive Directors.
- (2) Mr. Chan Kwan is the brother of Mr. Chan Pak Lam Brian, one of our non-executive Directors.

Please refer to the paragraph headed “Board of Directors” in this section for the biographical information of Mr. Chan and Mr. Chau.

Please refer to the section headed “Directors and Parties Involved in the Share Offer” for the addresses of Mr. Chau and Mr. Chan. Except for Mr. Chau, Mr. Chan and Mr. Lui Hin Weng Samuel, other members of our senior management are primarily based in our headquarters in the PRC. Please refer to the section headed “Corporate Information” in this prospectus for details.

Mr. Lui Hin Weng Samuel (呂顯榮), aged 39, was appointed as the chief financial officer on 18 March 2014 and is mainly responsible for financial management and reporting, investor relations, fund raising and capital management of our Group. He assists the Chief Executive Officer in our strategic planning and business development and leveraging on his compliance knowledge and experience gained from his prior practice and involvement in accounting, private equity and investment banking, and his previous role as chief financial officer, oversees our Group’s compliance with applicable laws and regulations in Hong Kong and in the PRC as our compliance officer. Mr. Lui joined our Group in December 2013 as chief financial officer of Greatcorp.

Prior to joining our Group, Mr. Lui was a director within the private equity funds business at Rockstead Capital Private Limited from December 2011 to October 2013. Mr. Lui also served as the chief financial officer at Feres Pte Ltd from July 2009 to May 2011, a director at Merrill Lynch in Hong Kong and Singapore from May 2007 to May 2009, an assistant director of the financial sponsors group, Asia in global clients at ABN AMRO Bank N.V., Hong Kong Branch from September 2005 to April 2007, vice president at project finance and advisory department at Societe Generale Asia Limited from July 2004 to August 2005, manager of project and export finance at HSBC from May 2003 to July 2004, senior associate at Ernst & Young from May 2002 to May 2003, and senior at Arthur Andersen from September 1998 to January 2002.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lui obtained a bachelor's degree in accountancy from Nanyang Technological University in Singapore in July 1998. Mr. Lui is a member of the Institute of Singapore Chartered Accountants (previously known as the Institute of Certified Public Accountants of Singapore) since October 2002.

Mr. Lui did not hold any directorship in any listed companies in the three years immediately prior to the date of this prospectus.

Mr. Wang Zili (汪自力), aged 51, was appointed as the deputy general manager, Haian Hengfa Facility on 18 March 2014. Mr. Wang joined our Group in February 2005 and is mainly responsible for overseeing operational matters related to the Haian Hengfa Facility.

Prior to joining our Group, Mr. Wang was vice chairman and general manager at Beijing Solar Power Nutritious Engineering Development Co., Ltd. (北京瑞權營養工程發展有限公司), a deputy general manager at National Youth Services Centre (中國青少年社會服務中心) and a researcher at Zhuzhou Electric Locomotive Research Institute (鐵道部株洲電力機車研究院), and worked at Shenzhen Recruitment Services Company (深圳市人才服務公司).

Mr. Wang obtained a bachelor's degree in engineering from Dalian Railway Institute (大連鐵道學院) (now known as Dalian Jiaotong University (大連交通大學)) in July 1983.

Mr. Wang did not hold any directorship in any listed companies in the three years immediately prior to the date of this prospectus.

Mr. Zhou Yinbing (周銀兵), aged 36, was appointed as the deputy general manager, Rugao Hengfa Facility on 18 March 2014 and is mainly responsible for overseeing operational matters related to the Rugao Hengfa Facility and the Rugao Honghao Facility of our Group. Mr. Zhou joined our Group in February 2004. Prior to joining our Group, Mr. Zhou worked at Nantong Feilong Towngas Fittings Factory (南通飛龍煤氣設備製造廠) from September 1997 to February 2004, providing technological support in the production department.

Mr. Zhou studied economics and management at the Party School of the Jiangsu Provincial Committee of the Communist Party of China (中共江蘇省委黨校) in July 2010, and obtained an associate degree in business administration from the Open University of China (中央廣播電視大學) in July 2006 as well as a diploma in applied electrical and mechanical technology from Jiangsu Province Nantong School of Agriculture (江蘇省南通農業學校) in June 1997.

Mr. Zhou is qualified as a wastewater treatment technological management administrator by the Jiangsu Province Housing and Urban-Rural Development (江蘇省住房和城鄉建設廳) in December 2011, an engineer by Jiangsu Province Environmental Protection Department (江蘇省環境保護廳) in January 2008, a work safety administrator by Rugao Administration of Work Safety (如皋市安全生產監督管理局) in June 2006.

Mr. Zhou did not hold any directorship in any listed companies in the three years immediately prior to the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Kwok Siu Man (郭兆文), aged 55, was appointed as our company secretary on 18 March 2014. Mr. Kwok is the head of corporate secretarial in Boardroom Corporate Services (HK) Limited and a director of Boardroom Share Registrars (HK) Limited, our Hong Kong branch share registrar.

Mr. Kwok has been a member of the Hong Kong Securities and Investment Institute since April 1999. He has also been a fellow of the Institute of Financial Accountants in England since August 1996, The Hong Kong Institute of Chartered Secretaries (“**HKICS**”) since August 1994, the Institute of Chartered Secretaries and Administrators in England since October 1990, The Association of Hong Kong Accountants since June 2014 and The Hong Kong Institute of Directors since July 2014. He also possesses professional qualifications in arbitration, tax, financial planning and human resource management. He was a chief examiner of the HKICS and has served it as a council member for 18 years, the maximum length of service that any HKICS member can serve.

Mr. Kwok completed the Common Professional Examination in England and Wales and obtained a postgraduate diploma in laws from the Manchester Metropolitan University in England in July 1998, and obtained a bachelor’s degree of arts in accountancy and a professional diploma in company secretaryship and administration, both from the Hong Kong Polytechnic University, in November 1994 and November 1983 respectively.

Mr. Kwok has an aggregate of about 25 years of extensive in-house corporate secretarial, legal and management experience gained at company secretary and other senior positions from overseas and Hong Kong (including Hang Seng Index Constituent stock) listed companies. He was the managing director of a leading financial printer in Hong Kong with international affiliation. In 1999, he was named in the International WHO’S WHO of Professionals and has been an adjudicator of the Best Annual Reports Awards organised by the Hong Kong Management Association and a member of the Board of Review appointed by the government of Hong Kong under the Inland Revenue Ordinance. He is currently the company secretary and a joint company secretary of a number of companies listed on the Stock Exchange.

BOARD COMMITTEES

Audit Committee

Our Board has established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules. The primary duties of the audit committee are mainly to make recommendations to our Board on the appointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, and oversee financial reporting system and internal control procedures of our Company. At present, the audit committee consists of four members, namely Mr. Chau Chi Yan Benny, Ms. Ng Chung Yan Linda, Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict. Ms. Ng is the chairman of the audit committee.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

Our Board has established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are mainly to make recommendation to our Board on the overall remuneration policy and structure relating to all directors and senior management of our Group, review remuneration proposals of the management with reference to our Board's corporate goals and objectives, and ensure none of our Directors or any of their associates determine their own remuneration. At present, the remuneration committee consists of four members, namely Mr. Chan Pak Lam Brian, Ms. Ng Chung Yan Linda, Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict. Mr. Ng is the chairman of the remuneration committee.

Nomination Committee

Our Board has established a nomination committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules. The primary functions of the nomination committee are to review the structure, size and composition of our Board and make recommendations to our Board regarding candidates to fill vacancies on our Board. At present, the nomination committee consists of five members, namely Mr. Chau, Mr. Chan, Ms. Ng Chung Yan Linda, Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict. Mr. Chau is the chairman of the nomination committee.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

We reimburse our Directors for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. Our executive Directors and senior management members who are also our employees are entitled to receive compensation in the form of salaries and other allowances and benefits in kind. Please refer to the section headed "Statutory and General Information — C. Further Information about our Directors — 3. Directors' Remuneration" in Appendix IV to this prospectus for details.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management members which, following the Listing, will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and their responsibilities and performance of our Group. After Listing, our Directors and senior management members may also receive options to be granted under the Share Option Scheme.

SHARE OPTION SCHEME

Our Directors have adopted the Share Option Scheme and its implementation is conditional on the Listing. Please refer to the section headed "Statutory and General Information — D. Share Option Scheme" in Appendix IV to this prospectus for a summary of the principal terms of the Share Option Scheme.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Quam Capital as our compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules. The appointment of the compliance adviser will commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

Pursuant to Rule 3A.23 of the Listing Rules and in accordance with the agreement we entered into with Quam Capital, Quam Capital will provide advice to us when consulted in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) if a transaction, which might be a notifiable or connected transaction, is contemplated by our Company, including share issues and share repurchases;
- (c) if we propose to use the proceeds from the Share Offer in a manner different from that detailed in this prospectus or if our business activities, developments or results deviate from any forecast, estimate (if any) or other information in this prospectus; and
- (d) if the Stock Exchange makes an inquiry to us under Rule 13.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

OUR SUBSTANTIAL SHAREHOLDERS

So far as our Director or chief executive of our Company is aware, the following persons (other than a Director or chief executive of our Company), immediately following the completion of the Share Offer (and without taking into account of any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), will have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company 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:

Name	Capacity/ Nature of Interest	As at the Latest Practicable Date		Immediately After the Completion of the Share Offer	
		Number of Shares	Approximate Percentage of Interest	Number of Shares	Approximate Percentage of Interest
Everbest Environmental ⁽¹⁾ ...	Beneficial interest	375,000,000	62.5%	375,000,000	46.9%
Ms. Wong ⁽¹⁾	Controlled corporation	375,000,000	62.5%	375,000,000	46.9%
Ms. Chan ⁽¹⁾	Controlled corporation	375,000,000	62.5%	375,000,000	46.9%
Wealthy Sea ⁽²⁾	Beneficial interest	225,000,000	37.5%	225,000,000	28.1%
Ms. Wong Mei Ling ⁽²⁾	Spouse/ Controlled corporation	225,000,000	37.5%	225,000,000	28.1%

Notes:

- ⁽¹⁾ Everbest Environmental is held as to 50%, 30% and 20% by Ms. Wong, Ms. Chan and Mr. Chan, respectively. Ms. Wong and Ms. Chan are deemed to be interested in the 375,000,000 Shares held by Everbest Environmental pursuant to the SFO. Ms. Wong is the mother of both Ms. Chan and Mr. Chan.
- ⁽²⁾ Wealthy Sea is held as to 90% and 10% by Mr. Chau and Ms. Wong Mei Ling, the spouse of Mr. Chau, respectively. Ms. Wong Mei Ling is deemed to be interested in the 225,000,000 Shares held by Mr. Chau, through their controlled corporation, Wealthy Sea, pursuant to the SFO.
- ⁽³⁾ All the above Shares are held in long position.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors or chief executive of our Company is/are aware, the following person (other than a Director or chief executive of our Company), immediately following the completion of the Share Offer (and without taking into account of any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), 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 the following member of our Group (other than our Company):

Name	Member of Our Group	Capacity/ Nature of Interest	As at the Latest Practicable Date		Immediately After the Completion of the Share Offer	
			Registered Capital Held	Approximate Percentage of Interest	Registered Capital Held	Approximate Percentage of Interest
Haian Construction Development Investment ⁽¹⁾	Haian Hengfa	Beneficial interests	RMB9,000,000	30%	RMB9,000,000	30%

Note:

⁽¹⁾ Haian Construction Development Investment is an Independent Third Party.

SHARE CAPITAL

SHARE CAPITAL

The following is a description of our authorised share capital and our share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Share Offer:

Authorised Share Capital	<i>HK\$</i>
3,800,000,000 Shares of HK\$0.0001 each	380,000
Issued Share Capital as at the Latest Practicable Date	
600,000,000 Shares of HK\$0.0001 each	60,000
Shares to be Issued	
200,000,000 Shares to be issued pursuant to the Share Offer	20,000
Total Share Capital Issued and to be Issued upon completion of the Share Offer	
800,000,000 Shares	80,000

No debenture or convertible debt securities of our Company or any of our subsidiaries was outstanding as at the Latest Practicable Date and no debenture or convertible debt securities of our Company or any of our subsidiaries is expected to be outstanding upon Listing.

ASSUMPTIONS

The above table assumes that the Share Offer has become unconditional. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company under the general mandates of any Shares referred to below.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* with all Shares in issue or to be issued as mentioned in this prospectus and will be qualified for all dividends or other distributions declared, made or paid after the date of this prospectus. For the avoidance of doubt, the Offer Shares will not be qualified for the special dividend declared by us on 5 September 2014.

GENERAL MANDATE TO ISSUE NEW SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate nominal value of not more than:

- (a) 20% of the total nominal amount of the Shares in issue immediately following completion of the Share Offer; and

SHARE CAPITAL

- (b) the total nominal amount of the Shares repurchased by our Company pursuant to the mandate referred to in the paragraph headed “General Mandate to Repurchase Shares” in this section.

This general mandate will expire:

- at the conclusion of the next annual general meeting of our Company;
- at the expiration of the period within which our Company is required by the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For details of this general mandate, please refer to the section headed “Statutory and General Information — A. Further Information about our Company — 3. Resolutions of our Shareholders dated 5 September 2014” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the Shares in issue immediately following completion of the Share Offer.

This general mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. Please refer to the section headed “Statutory and General Information — A. Further Information about our Company — 6. Repurchases by our Company of our own Securities” in Appendix IV to this prospectus for a summary of the relevant Listing Rules.

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company;
- at the expiration of the period within which our Company is required by the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

SHARE CAPITAL

For details of this general mandate, please refer to the section headed “Statutory and General Information — A. Further Information About Our Company — 3. Resolutions of our Shareholders dated 5 September 2014” in Appendix IV to this prospectus.

SHARE OPTION SCHEME

On 5 September 2014, we conditionally adopted the Share Option Scheme. Please refer to the section “D. Share Option Scheme” in Appendix IV to this prospectus for summaries of the principal terms of the Share Option Scheme.

FINANCIAL INFORMATION

*The following discussion and analysis of our financial condition and operational results should be read in conjunction with our financial information as well as the related notes thereto as set out in the Accountants' Report set forth in Appendix I to this prospectus (the “**Consolidated Financial Information**”), for the years ended 31 December 2011, 2012, 2013 and for the five months ended 31 May 2014. Our Consolidated Financial Information has been prepared in accordance with HKFRS, which may differ from the generally accepted accounting principles in other jurisdictions in certain material aspects.*

The discussions and analysis in this section of the prospectus contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and interpretation of historical trends, current conditions and expected future developments as well as other factors that we believe are appropriate under the relevant circumstances. However, whether our actual results reported in future periods differ materially from those discussed below depends on various factors which we do not have any control over. Factors that could cause or contribute to such differences include those discussed in the sections headed “Forward-Looking Statements”, “Risk Factors” and “Business” as well as those discussed elsewhere in this prospectus.

Unless the context otherwise requires, for the purpose of this section, references to “2011”, “2012” and “2013” refer to our financial years ended 31 December 2011, 2012 and 2013, respectively. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a wastewater treatment services provider with three wastewater treatment facilities in Jiangsu Province, China. We offer a one-stop approach to the provision of wastewater treatment services using the “Build — Operate — Transfer” (or BOT) model. We cover the whole spectrum of activities from the design of wastewater treatment facilities, through the procurement of suitable equipment and materials, to the supervision of their construction as well as the on-going operation and maintenance of the facilities throughout long-term concession periods.

As at the Latest Practicable Date, we had three wastewater treatment facilities in operation, all of which are at a relatively early stage in their respective concession periods. The number of years for the concession periods of the various phases of our facilities, as extended by the respective supplemental BOT agreements, range from 22.5 to 34 years.

During the Track Record Period, our total revenue grew from approximately HK\$44.6 million in 2011 to approximately HK\$46.9 million in 2012 and to approximately HK\$65.1 million in 2013, representing a CAGR of approximately 20.9%. Our total revenue grew from approximately HK\$25.0 million for the five months ended 31 May 2013 to HK\$35.5 million for the five months ended 31 May 2014, representing an increase of approximately 42.2%.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the section headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus, our Company became the holding company of the companies now comprising our Group on 25 February 2014. The Reorganisation has been accounted for in accordance with the principle similar to a reverse acquisition as set out in HKFRS 3 *Business Combinations*. Accordingly, the Consolidated Financial Information has been prepared as a continuation of Everbest Water Treatment Development and its subsidiaries and the assets and liabilities of which are recognised and measured at their historical carrying values prior to the Reorganisation.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results of all companies now comprising our Group from the date on which our Group obtained control and continues to be consolidated until the date that such control ceases.

All material intra-group transactions and balances have been eliminated on consolidation.

Our financial information has been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). All HKFRSs effective for the accounting period commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted by us in the preparation of the Consolidated Financial Information throughout the Track Record Period. Accordingly, our financial information has been prepared under the historical cost convention and is presented in Hong Kong dollars.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We set out below selected critical accounting policies adopted and estimates made in the preparation of our financial statements which we believe are both important to the presentation of our financial results and involve the most significant estimates and judgments. For details regarding our other policies that we consider to be significant accounting policies, please refer to Notes 4 and 5 to the Accountants’ Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

Service concession arrangements

We provide our wastewater treatment services by entering into BOT agreements with our customers. Under these agreements, the respective local government authority or administrative committee usually grants our project companies a concessionary right to construct and then operate the relevant wastewater treatment facility for a specific period of time, whereby we are guaranteed that we will at least receive minimum annual payments (in the form of wastewater treatment fees) in respect of our BOT arrangements calculated according to a pre-negotiated formula. For details regarding such payments, please refer to the section headed “Business — Key Contractual Terms of our BOT Agreements” in this prospectus.

Pursuant to HKFRS, HK(IFRIC) - Int 12 *Service Concession Arrangements* applies to our BOT projects because the respective local government authority or administrative committee controls and regulates the services that we provide with the wastewater treatment facilities at pre-determined service charges. Furthermore, these facilities must be transferred to such authority or committee at the end of the concessionary period for nil consideration.

BOT project model accounting

As mentioned above, our BOT projects are considered service concession arrangements under, and are assessed within the scope of, HK(IFRIC) - Int 12 *Service Concession Arrangements*, which required us to (i) account for revenue and costs relating to construction services in accordance with HKAS 11 *Construction Contracts*, and (ii) account for revenue and costs relating to operation services in accordance with HKAS 18 *Revenue*. Based on HKFRS, we recognise revenue from a BOT project both during the construction phase and the operational phase. However, according to the BOT arrangements the actual cash inflow for our construction revenue from our BOT projects is only received in the form of cash payments (the wastewater treatment fees) during the operational phase of the relevant BOT projects.

In accordance with HK(IFRIC) - Int 12 *Service Concession Arrangements* and other applicable accounting rules and principles, our accounting treatment for a BOT project is summarised in the following paragraphs. For details regarding such accounting treatment and the relevant accounting policies, please refer to the HK(IFRIC) - Int 12 *Service Concession Arrangements* issued by the HKICPA.

Construction phase

Total revenue relating to the construction services is estimated on a cost-plus basis and recognised during the construction phase based on the percentage-of-completion method as set out in the paragraph headed “Critical Accounting Policies and Estimates — Revenue Recognition — (i) Construction Services” in this section.

Based on the terms of the BOT agreements, the revenue relating to construction services are estimated to be fully recovered through the guaranteed tariffs to be received over the entire life of the service concession arrangement as stipulated in the BOT concession agreement. As such, the revenue in respect of the construction services is first recognised in profit or loss in the period of construction

FINANCIAL INFORMATION

with the corresponding receivable recorded as a “receivable under service concession arrangements” in our consolidated statements of financial position. The receivable related to the construction services will be billed to our customers over the operational phase of the service concession arrangement. In accordance with HK(IFRIC)-Int 12 *Service Concession Arrangements*, our BOT projects under the service concession arrangements are classified as financial assets (i.e., receivables under service concession arrangements) as the investment by our Group under these service concession arrangements is covered by a payment commitment from our customers. The fair value of consideration receivable by us under our service concession arrangement projects was determined with reference to the guaranteed minimum tariff as stipulated in the relevant service concession agreements. As we are entitled to receive a guaranteed minimum tariff that is calculated based on the agreed maximum capacity of our facility in accordance with the BOT agreements, regardless of the actual volume of wastewater treated by our respective facility and are larger than our initial investments for our BOT projects, our investment in such BOT projects is accounted as financial assets and no remainder is recognised as intangible assets (i.e., service concession rights). The financial assets (i.e., receivables under service concession arrangements) are accounted for in accordance with the policy set out for loans and receivables under the paragraph headed “Critical Accounting Policies and Estimates — Impairment of financial assets” in this section.

During the years ended 31 December 2011, 2012 and 2013, we did not recognise any revenue from construction service. We recognised revenue from construction service during the five months ended 31 May 2014 for the upgrade works and improvement works carried out for the Haian Hengfa Facility and the Rugao Hengfa Facility, respectively.

Operational phase

During the operational phase, we record the amount of revenue when wastewater treatment services are rendered, and recognise a corresponding receivable under service concession arrangements. Revenue recognised during the operational phase accounts for the remainder of the total revenue from our BOT projects. The wastewater treatment fee billed for a given year comprises the fee from rendering of wastewater treatment service during that year and the fee related to construction services which has already been recognised as receivable under the service concession during the construction period as discussed above.

Imputed interest

Imputed interest revenue is recognised from time to time on the receivables under service concession arrangements on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts (i.e., wastewater treatment fees) over the service concession period to the net carrying amount of the receivables. The relevant discount rate is determined by CBRE Limited, an Independent Third-Party valuer, using the median of the yield of corporate bonds of comparable infrastructure companies according to market practice. The assessment of comparability of the aforesaid selected PRC infrastructure companies involved, to certain extent, the subjective judgement of CBRE Limited. Based on the above, the relevant interest rates used for our BOT projects, as determined by CBRE Limited, range from 4.02% to 5.99%. The imputed interest revenue is included in the revenue in profit or loss.

FINANCIAL INFORMATION

Receivables under service concession arrangement

Components of the receivables under service concession arrangement included (i) the consideration receivables for our construction services at initial recognition, (ii) imputed interest on such receivables which would be recognised from time to time, and (iii) consideration receivables for our wastewater treatment service rendered.

Upon billing of our wastewater treatment fees, we transfer the respective receivables under the service concession arrangements from unbilled portion to the billed portion. Such billed receivables under the service concession arrangements will be settled upon receipt of cash payments.

Receivables under service concession arrangements are measured at amortised cost less impairment. We assess the impairment of our receivables under service concession arrangements at the end of each reporting period in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*.

With the combined effect of the accumulation of imputed interest and the settlement in the operational phase, the receivables under service concession arrangements would be fully settled at the end of the concession period.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably, on the following bases:

(i) Construction services

Total revenue from the construction of our wastewater treatment facilities under the terms of our BOT agreements is estimated on a cost-plus basis by multiplying our estimated total construction cost with a construction margin. Revenue is then recognised during the construction phase based on the percentage-of-completion method under HKAS 11 *Construction Contracts*, which is measured by reference to the estimated proportion of cost incurred to date to the estimated total costs of the relevant contract.

The construction margin is determined by CBRE Limited⁽¹⁾ with reference to the prevailing rates of gross margins of market comparables at the time of construction. The respective comparables' rates of gross margins used for determining the construction margins of our BOT projects and the upgrade works of the Haian Hengfa Facility carried out during the five month ended 31 May 2014 are selected by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

- (i) the peer firm must be in the field of the construction of infrastructure, preferably focusing in wastewater treatment facility operation in the PRC; and

⁽¹⁾ CBRE Limited provides valuation services for a wide range of utility and infrastructure businesses, including but not limited to wastewater treatment, and had provided similar services to a number of companies listed on the Stock Exchange.

FINANCIAL INFORMATION

(ii) information of the peer firm must be available and from a reliable source.

The gross profit margins of the market comparables considered by CBRE Limited range from approximately 2.6% to approximately 58.0%. The construction margins used for our BOT projects and the upgrade works of the Haian Hengfa Facility carried out during the five months ended 31 May 2014, as determined by CBRE Limited using the median of the respective comparables' gross margins according to market practice, range from 11.2% to 17.3%. In relation to the improvement works of the Rugao Hengfa Facility carried out during the five months ended 31 May 2014, the construction margin adopted was 11%, being the minimum guaranteed investment return as agreed by Rugao ETDZ Administrative Committee as provided for in the relevant BOT agreement. As confirmed by CBRE Limited, such investment return of 11% is not unreasonable compared with observable return of similar construction projects of other companies.

(ii) Wastewater treatment operation services

Revenue from providing wastewater treatment operation services is recognised when the relevant service is rendered.

(iii) Interest income

Interest income (imputed interest) is recognised on the receivables under service concession arrangements on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts (i.e. wastewater treatment fees) over the service concession period to the net carrying amount of the receivables.

The relevant discount rate is determined by CBRE Limited according to market practice using the median of the yield of the infrastructure company corporate bonds which:

- the issuer of the corporate bond must be doing business on construction of infrastructures in the PRC;
- the corporate bond is listed on PRC stock exchanges and actively traded;
- the maturity year of corporate bond is in the range of 15 to 30 years, which is in line with concession period of the facilities of our Group; and
- information of the corporate bond must be available and from a reliable source.

(iv) Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

FINANCIAL INFORMATION

Impairment of financial assets

Our financial assets are assessed at the end of each reporting period as to whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence of impairment is observable data that comes to our attention after the initial recognition of the asset which has an impact on the estimated future cash flows of the financial asset that can be reliably estimated, including any one or more of the following loss events:

- (i) a debtor or a group of debtors is experiencing significant financial difficulty;
- (ii) default or delinquency in interest or principal payments by a debtor or a group of debtors;
- (iii) it becoming probable that a debtor or a group of debtors will enter bankruptcy or other financial reorganisation; and
- (iv) observable data indicating that there is a measurable decrease in the estimated future cash flows of a debtor or a group of debtors, such as changes in arrears or economic conditions that correlate with defaults.

If any of the abovementioned evidence exists, impairment loss is determined and recognised as follows:

For financial assets carried at amortised cost, our 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 our Group determines that no objective evidence of impairment exists for an individually assessed item of 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 flow is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate 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 and is accrued 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 our Group.

FINANCIAL INFORMATION

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 “Other expenses” in profit or loss.

Impairment of receivables under service concession arrangements, other receivables and amounts due from related parties

The policy for provision for impairment of receivables under service concession arrangements, other receivables and amounts due from related parties of our Group is based on the evaluation of collectability and ageing analysis of accounts and on management’s estimation. A considerable amount of estimation 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 were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As such, our receivables under service concession arrangements is subject to impairment testing at the end of each reporting period throughout their respective concession periods.

Please refer to paragraphs headed “Certain Selected Statements of Financial Position Line Items — Receivables under Service Concession Arrangements” and “Market Risks — Credit Risk” in this section for further details regarding our assessment on the recoverability of our receivables and our billing policy, respectively, during the Track Record Period.

Provision for major overhauls of wastewater treatment facilities to a level of serviceability

Our Group has contractual obligations (i) to maintain the wastewater treatment plants it operates to a specified level of serviceability, and (ii) to restore the plants to a specified condition before they are transferred to the local government authorities at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, in another words, at the best estimate of the expenditure that would be required to settle the present obligation at the end of each reporting period. The estimation of the expenditure requires our Group to estimate the expected future cash outlays on major overhauls of the wastewater treatment plants over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Current tax and deferred tax

Our Group is subject to income taxes in Hong Kong and the PRC. Our Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining our Group’s provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact on the income tax and deferred tax provision in the periods in which the determination is made.

FINANCIAL INFORMATION

Deferred tax is provided, using the liability method, on all temporary differences at the end of each 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:

- (i) 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
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, 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 carry-forward 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 carry-forward of unused tax credits and unused tax losses can be utilised, except:

- (i) 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
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, 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 each reporting period. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

FINANCIAL INFORMATION

MAJOR FACTORS AFFECTING OUR OPERATIONAL RESULTS

We believe our business, financial condition and operational results have been, and will continue to be directly or indirectly affected by a number of factors, many of which are beyond our control, including:

Changes in the volume of wastewater treated and our tariff arrangement

Our wastewater treatment facilities are public infrastructure projects which typically require significant amounts of capital investment. To provide us with reasonable returns, the wastewater treatment fees negotiated for each of our wastewater treatment facilities as set out under their respective BOT agreements take into account factors such as the agreed maximum wastewater treatment capacity, estimated volume of wastewater to be treated and estimated operating costs. In return for bearing the costs of construction as well as operations and maintenance, we receive a guaranteed tariff in respect of our wastewater treatment services provided regardless of the volume of wastewater treated by our facilities. The wastewater treatment fees which we receive under our BOT agreements typically include a tariff for the actual volume of wastewater treated and a discount of the tariff for the shortfall between the agreed maximum capacity of the facilities and the actual volume of wastewater treated. Accordingly, our operating results may not be directly proportional to the increased amounts of wastewater treated by our facilities as the additional operating costs incurred for treating such increased amounts may partially offset or even exceed the additional revenue gained from treating the increased volume of wastewater.

Changes in our costs and tariff rates relating to our wastewater treatment services

We are exposed to fluctuations in the prices of raw materials and equipment used in constructing our treatment facilities as well as the raw materials we use in our wastewater treatment processes. For our projects, the cost of construction services represents the outsourcing costs we incurred in respect of the construction of each of our wastewater treatment facilities and include the cost of equipment as well as basic materials purchased and provided by our contractors. Rising prices of raw materials and equipment 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 and equipment and other operating costs may be limited by certain government pricing policies in place. The wastewater treatment fees we receive for each of our facilities typically include a tariff which is based on the actual volume of wastewater treated plus a discounted tariff for any shortfall between the agreed maximum capacity of the facility of the actual volume of wastewater being treated. For details regarding the tariff, please refer to the section headed “Business — Key Contractual Terms of Our BOT Agreements” in this prospectus. Such tariff rates are pre-determined at the time when we enter into the relevant BOT agreement with the local government authorities. Accordingly, our revenue and profitability are affected by such tariff rates, which are determined based on factors including construction costs, expected costs of maintenance and the agreed wastewater treatment capacity of the relevant facility. Our BOT agreements also contain provisions specifying the circumstances when the parties can adjust the tariff rates, generally by reference to inflation and/or changes in benchmark interest rate on loans or utilities charges.

FINANCIAL INFORMATION

Changes in government policies and regulations relating to the wastewater treatment services industry

We are engaged in an industry where regulatory standards play a critical role in influencing the demand for our services. Our operations are sensitive to changes in the PRC government's laws and regulations relating to the wastewater treatment services industry, or changes in the implementation of such laws and regulations. Any changes in legislative, regulatory or industrial requirements have an impact on our ability to provide our wastewater treatment services.

In recent years, the PRC government has been increasingly focusing on environmental protection. We are currently in a favorable regulatory environment where the PRC government encourages the development of the environmental protection industry and has stated its intention to increase investment in the environmental protection industry going forward. We believe that this anticipated increase in government spending on wastewater treatment infrastructure will further increase the demand for wastewater treatment related services in China. In addition, environmental regulatory requirements in China are becoming increasingly stringent as the PRC Government sets stricter water quality standards for our industry. Accordingly, companies that fall below the required standard or those that illegally discharge wastewater may be subject to substantial fines or, in extreme cases, required to close their facilities. Although these stricter regulatory requirements may lead to higher compliance costs, we believe they present new business opportunities for us due to our ability to provide customised wastewater treatment solutions that meet the relevant environmental regulatory requirements. We believe that we are well positioned to respond to the increasingly stringent environmental protection policies in China. Changes in government environmental protection policies will continue to have an impact on the outlook of our business and results of operations.

Currently, our business and operations in China require permits, licences and certificates from the relevant government authorities. From time to time, changes in the rules and regulations or the implementation thereof may require us to obtain additional approvals and licences from PRC authorities for our operations in China. In such event, we may need to incur additional expenses in order to comply with such requirements. In addition, some of these licences, permits and certificates are subject to periodic reviews and renewals by the relevant governmental authorities and the standards of compliance required may from time to time be subject to change without advance notice. Any changes in the existing government policies and regulations relating to the wastewater treatment industry may result in our failure to obtain or maintain such permits, licences and certificates, which could have a negative impact on our financial condition and results of operations.

Availability and access to capital as well as the cost of financing

Our performance is affected by our access to capital and financing costs. Our projects typically require us to make substantial investments during the construction phase of our projects and therefore we also require a significant amount of capital to expand our operations. We are responsible for the costs related to the construction of the wastewater treatment facilities, the cost of operations as well as repairs and maintenance of the wastewater treatment facilities during their respective concession periods.

FINANCIAL INFORMATION

As a result of the required substantial financial investments for our business operations, we may need to look to external financing sources such as issuance of equity or debt securities and/or borrowings from banks or other sources. Our access to capital is therefore very important to our performance. Disruption in the financial market may cause substantial volatility in the capital markets, which may result in reduced liquidity, widening of credit spreads, lack of pricing transparency in credit markets, reduction in available financing and tightening of credit terms. If there are prolonged disruptions to the credit markets in the future, this could limit our ability to borrow funds from our current or other funding sources or cause the continued access to funds to become more expensive, and our business may be exposed to a downturn in revenue that might be caused by such tightening of credit conditions.

Our cost of financing affects our performance as we expect bank borrowings to be a reliable source of funding to finance our future projects. As at 31 December 2012 and 2013 and 31 May 2014, we had approximately HK\$24.9 million, approximately HK\$17.6 million and approximately HK\$13.7 million of outstanding bank loans, respectively. Our long-term borrowing as at 31 May 2014 was linked to the US dollar prime rate and the principal amount and interest of our long-term bank loan is repaid by installments on a quarterly basis during the life of the loan. Upward fluctuations in the US dollar prime rate may increase the cost of our financing and adversely affect our revenue and profitability. In addition, our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government restraining the money supply and credit availability for fixed asset investments.

Our ability to expand our business

Our ability to expand our business is an important factor affecting our future business growth and operational results. We will continue to focus on regions that have the potential to require growing amounts of wastewater treatment services, such as developing municipalities and industrial parks. We intend to carry out various types of wastewater treatment projects and intend to carry them out under the BOT project model if we consider such projects to be beneficial to us. Additionally, we may also choose to expand our wastewater treatment services to include the treatment of wastewater from a number of other industries where the required technologies and knowhow are similar to those employed by our current wastewater treatment facilities. Our prospects, business growth and operational results may be affected by our ability to expand our business and manage our growth.

The progress of project construction

We provide our wastewater treatment services using the BOT project model and generally do not receive any payment from the local government authority or administrative committee during the construction phase of our facilities. The actual cash inflow for our construction revenue from our BOT projects is only received in the form of cash payments of wastewater treatment fees during the operational phase of the relevant BOT projects which affects our cash flows during the relevant periods.

FINANCIAL INFORMATION

Our BOT projects are considered as service concession arrangements under HK(IFRIC) - Int 12 *Service Concession Arrangements*. As such, we recognise revenue from a BOT project during both the construction phase and the operational phase. For details regarding our BOT project model accounting, please refer to the paragraph headed “Critical Accounting Policies and Estimates — BOT Project Model Accounting” in this section. Revenue generated from construction services of our BOT projects is estimated on a cost-plus basis and recognised during the construction phase based on the percentage-of-completion method. Revenue and costs from the construction service are only recognised when the project construction services commence. Therefore, our revenue depends on the number of projects we are constructing and is significantly affected by the progress of the construction projects. When a construction service commences, we need to estimate the percentage of construction works completed for each of the reporting period and the total construction costs of the relevant BOT agreement based on our assessment of, among other things, the market conditions and costs of raw materials and equipment and other construction costs for new BOT projects. During the Track Record Period, we recognised construction income under the service concession arrangements of approximately HK\$4.9 million and approximately HK\$2.3 million for the Haian Hengfa Facility and the Rugao Hengfa Facility, respectively. For details regarding our construction related revenue, please refer to the paragraph headed “Review of Historical Operational Results — Revenue” in this section.

Taxation

As we operate in and derive our revenue and profit from China, our operational results and profitability are affected by changes in tax rates in China. Our subsidiaries that are registered in China and have operations in China are subject to PRC enterprise income tax on taxable income as reported in their PRC statutory accounts, as adjusted in accordance with the relevant PRC income tax laws.

Pursuant to relevant PRC laws, rules and regulations, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of China must pay value-added tax. During the Track Record Period, none of our subsidiaries were subject to any value-added tax. In addition, Rugao Hengfa was entitled to a tax holiday of two-year full exemption followed by three-year 50% exemption on income tax on income derived from wastewater treatment activities starting from the year in which the project first generates operating revenue from a PRC tax perspective (i.e., 2008). Accordingly, during the Track Record Period, Rugao Hengfa enjoyed a 50% reduction in income tax for the two years ended 31 December 2011 and 2012 (i.e., 12.5%). However, since 1 January 2013, Rugao Hengfa has no longer benefited from the 50% reduction in income tax. Furthermore, Haian Hengfa obtained preferential income tax treatment on 21 February 2014 whereby its income tax is taxed at the taxable profit which excluded 10% of its revenue going forward. Such preferential income tax treatment had been included in income not subject to tax in the reconciliation of the tax expense for the five months ended 31 May 2014. Save for Rugao Hengfa and Haian Hengfa, our PRC subsidiaries of the Group were not entitled to any income tax exemptions during the Track Record Period. That being the case, our Directors believe that there will not be any material change to our income tax expenses in the next few years unless there are fundamental changes to the taxes applicable to our business in the future.

FINANCIAL INFORMATION

OPERATIONAL RESULTS

The following table sets forth selected data from our consolidated statements of comprehensive income during the Track Record Period, which have been derived from, and should be read in conjunction with the Accountants' Report set forth in Appendix I to this prospectus.

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Revenue	44,560	46,900	65,090	24,993	35,541
Cost of sales	(10,508)	(10,350)	(15,769)	(4,803)	(13,407)
Gross profit	34,052	36,550	49,321	20,190	22,134
Other income and gains	529	542	5,664	4,172	140
Administrative expenses	(3,165)	(2,593)	(4,543)	(1,051)	(14,434)
Finance costs	(91)	(492)	(2,468)	(1,100)	(380)
Profit before tax	31,325	34,007	47,974	22,211	7,460
Income tax expenses	(5,784)	(6,973)	(14,080)	(5,724)	(5,433)
Profit for the year/period	25,541	27,034	33,894	16,487	2,027
Other comprehensive income ⁽¹⁾	8,906	1,855	8,286	4,651	(9,840)
Total comprehensive income for the year/period	34,447	28,889	42,180	21,138	(7,813)
Profit attributable to:					
- Owner of the parent	23,985	25,491	32,259	15,839	1,055
- Non-controlling interests	1,556	1,543	1,635	648	972
Total comprehensive income attributable to:					
- Owner of the parent	31,867	27,143	39,795	20,061	(7,929)
- Non-controlling interests	2,580	1,746	2,385	1,077	116
Gross profit margin ⁽²⁾	76.4%	77.9%	75.8%	80.8%	62.3%
Net profit margin ⁽³⁾	57.3%	57.6%	52.1%	66.0%	5.7%
Net profit margin (excluding listing expenses) ⁽⁴⁾	57.3%	57.6%	54.5%	66.0%	38.5%

Notes:

- (1) Other comprehensive income consists of exchange differences on translation of foreign operations to be reclassified to profit or loss in subsequent periods.
- (2) Gross profit margin is calculated by dividing gross profit by revenue and expressed as a percentage.
- (3) Net profit margin is calculated by dividing profit for the year/period by revenue and expressed as a percentage.
- (4) Net profit margin is calculated by dividing profit (excluding listing expense) for the year/period by revenue and expressed as a percentage.

FINANCIAL INFORMATION

REVIEW OF HISTORICAL OPERATIONAL RESULTS

Revenue

Our revenue, during the Track Record Period, represents (i) revenue from construction and operation of wastewater treatment plants under service concession arrangements, net of government surcharges, and (ii) the imputed interest income on receivables under service concession arrangements.

The following table sets forth the amount of our revenue contributed by each of our facilities during the Track Record Period:

	Year ended 31 December						Five months ended 31 May			
	2011	2011	2012	2012	2013	2013	2013	2013	2014	2014
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue
Wastewater treatment services⁽¹⁾										
							(Unaudited)			
Haian Hengfa Facility ⁽²⁾	11,944	26.8%	12,336	26.3%	13,203	20.3%	5,006	20.0%	10,796	30.4%
Rugao Hengfa Facility ⁽²⁾	32,616	73.2%	34,564	73.7%	35,495	54.5%	14,501	58.0%	16,979	47.8%
Rugao Honghao Facility	—	—	—	—	16,392	25.2%	5,486	22.0%	7,766	21.8%
Total	44,560	100.0%	46,900	100.0%	65,090	100.0%	24,993	100.0%	35,541	100.0%

Notes:

- (1) Imputed interest income under the service concession arrangements amounted to approximately HK\$10.3 million, HK\$10.4 million, HK\$13.6 million, HK\$5.2 million and HK\$6.0 million for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2013 and 2014, respectively, and are included in the revenue derived from wastewater treatment services.
- (2) For the five months ended 31 May 2014, we recognised construction income under the service concession arrangements of approximately HK\$4.9 million and approximately HK\$2.3 million for the Haian Hengfa Facility and the Rugao Hengfa Facility, respectively, and are included in the revenue derived from the wastewater treatment services.

Our BOT projects are considered as service concession arrangements under HK(IFRIC) - Int 12 *Service Concession Arrangements*. Based on such financial reporting standards, we recognise revenue during both the construction phase and the operational phase for a BOT project, although we generally only receive payments for our services rendered during the operational phase. For details regarding our BOT project revenue treatment, please refer to the paragraphs headed “Critical Accounting Policies and Estimates — Service concession arrangements”, “Critical Accounting Policies and Estimates — BOT Project Model Accounting” and “Critical Accounting Policies and Estimates — Revenue Recognition” in this section.

During the three years ended 31 December 2013, we did not recognise any revenue from construction services for the Haian Hengfa Facility and the Rugao Hengfa Facility since these two facilities completed construction prior to such period. Although the Rugao Honghao Facility completed construction in November 2011, we did not recognise any revenue from construction services during the Track Record Period since we only acquired Greatcorp, the parent company of the Rugao Honghao Facility, in February 2013.

FINANCIAL INFORMATION

During the five months ended 31 May 2014, we commenced upgrade works for the Haian Hengfa Facility and improvement works for the Rugao Hengfa Facility in March 2014 and January 2014, and recognised approximately HK\$4.9 million and HK\$2.3 million construction revenue, respectively.

The following table sets forth the volume of wastewater which was treated by each of our facilities during the Track Record Period:

	Total volume of wastewater treated (tons)					Surplus/(shortfall) between the agreed maximum capacity for calculating wastewater treatment fees and the volume treated (tons)				
	Year ended 31 December			Five months ended 31 May		Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014	2011	2012	2013	2013	2014
Haian Hengfa Facility ⁽¹⁾⁽³⁾ ...	8,958,904	8,739,989	9,341,505	3,506,160	3,504,678	1,658,904	1,419,989	2,041,505	406,160	(2,475,322)
Rugao Hengfa Facility ⁽³⁾	5,062,383	7,018,000	7,697,505	2,646,116	3,167,794	(8,632,617)	(7,622,000)	(6,902,495)	(3,393,884)	(2,872,206)
Rugao Honghao Facility ⁽²⁾⁽³⁾ ..	—	14,950	25,672	10,524	18,682	—	(1,266,050)	(1,251,828)	(517,976)	(509,818)
Total	14,021,287	15,772,939	17,064,682	6,162,800	6,691,154	(6,973,713)	(7,468,061)	(6,112,818)	(3,505,700)	(5,857,346)

Notes:

- (1) The actual constructed capacity of the Haian Hengfa Facility was 40,000 tons per day during the Track Record Period after the commencement of operation of the phase II facility in 2009. Due to protracted negotiations with the Haian County Construction Bureau, the BOT agreement for phase II of the Haian Hengfa Facility was not signed until 26 November 2013. Consequently, the minimum guaranteed tariff generated by the Haian Hengfa Facility was calculated with reference to an agreed maximum capacity of 20,000 tons per day during the period commenced on 1 January 2011 and ended immediately prior to 4 January 2014. According to the confirmation from Haian County Construction Bureau, the minimum guaranteed tariff for the Haian Hengfa Facility had been calculated based on an agreed maximum capacity of 40,000 tons per day from 4 January 2014 onwards. The average actual volume of wastewater treated by the Haian Hengfa Facility had exceeded 20,000 tons per day during the Track Record Period. Such surplus volume of wastewater treated by the Haian Hengfa Facility during the period commenced on 1 January 2011 and ended immediately prior to 4 January 2014, the date on which the minimum guaranteed tariff began to be calculated based on the agreed maximum capacity of 40,000 tons per day, gave rise to wastewater treatment fees in excess of the minimum guaranteed tariff. For details regarding the legality and ownership of phase II of Haian Hengfa Facility, please refer to the section headed “Business — Real Property — Properties Occupied by our Group under the BOT Agreements — Note (1)” in this prospectus.
- (2) The Rugao Honghao Facility commenced commercial operations in 2012, but was only acquired by our Group in February 2013.
- (3) Our Directors estimate that the revenue generated by the shortfall volume for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2014 for (i) the Haian Hengfa Facility was nil, nil, nil and approximately RMB1.0 million, respectively, (ii) the Rugao Hengfa Facility was approximately RMB13.7 million, RMB11.4 million, RMB10.3 million and RMB4.3 million, respectively, and (iii) the Rugao Honghao Facility was nil, nil (as our Group had not acquired the Rugao Honghao Facility in 2012), approximately RMB10.1 million (calculated since the completion of the acquisition of the Rugao Honghao Facility on 15 February 2013) and RMB4.7 million, respectively.

For details regarding the amounts of wastewater treated by each facility, please refer to the chart set out in the section headed “Business — Details of our Wastewater Treatment Facilities” in this prospectus.

FINANCIAL INFORMATION

During the period commenced on 1 January 2011 and ended immediately prior to 4 January 2014, the minimum guaranteed tariff that we received for the Haian Hengfa Facility were calculated based on the agreed maximum capacity of 20,000 tons per day. According to the confirmation from Haian County Construction Bureau, the minimum guaranteed tariff for the Haian Hengfa Facility had been calculated based on an agreed maximum capacity of 40,000 tons per day from 4 January 2014 onwards. During the entire Track Record Period, the Rugao Hengfa Facility and the Rugao Honghao Facility were calculated based on the agreed maximum capacity of 40,000 tons per day and 3,500 tons per day, respectively. Based on our BOT agreements, our tariffs are calculated as if such facilities were operating at their agreed maximum capacity in the following manner: (i) in respect of the actual volume of water being treated, the fees payable were the tariff multiplied by such volume; plus (ii) in respect of any shortfall between the agreed maximum capacity of the facility and the actual volume of wastewater being treated, the wastewater treatment fees payable will be a percentage of the tariff (between 60% to 90%, depending on the terms of the relevant BOT agreement) multiplied by the shortfall volume. Accordingly, assuming we did not treat any wastewater during the Track Record Period, we would still receive minimum guaranteed monthly wastewater treatment fees for each of our wastewater treatment facilities based on the aforesaid agreed maximum capacity multiplied by the relevant discounted tariff per ton of shortfall wastewater (between 60% to 90%).

For the years ended 31 December 2011, 2012 and 2013, the total volume of wastewater treated by our facilities was approximately 14.0 million tons, 15.8 million tons and 17.1 million tons, respectively, and the weighted average price charged per ton of wastewater treated was approximately RMB1.4, RMB1.5 and RMB1.5, respectively. For the five months ended 31 May 2013 and 31 May 2014, the total volume of wastewater treated by our facilities was approximately 6.2 million tons and 6.7 million tons, respectively, and the weighted average price charged per ton of wastewater treated was approximately RMB1.5 and RMB1.6, respectively.

Our total revenue increased by approximately 5.3% to approximately HK\$46.9 million in 2012 from approximately HK\$44.6 million in 2011, of which revenue excluding the imputed interest income increased from approximately HK\$34.3 million in 2011 to approximately HK\$36.5 million in 2012. During this period, the total volume of wastewater that we treated increased from approximately 14.0 million tons to approximately 15.8 million tons, but this was partially offset by a decrease in tariff for the Rugao Hengfa Facility of approximately 4.4% since July 2011 as prescribed in its BOT agreement, which sets out a tariff schedule for the first few years of operation.

Our total revenue increased by approximately 38.8% to approximately HK\$65.1 million in 2013 from approximately HK\$46.9 million in 2012, of which revenue excluding the imputed interest income increased from approximately HK\$36.5 million in 2012 to approximately HK\$51.5 million in 2013. During this period, the increase in revenue was primarily attributable to the acquisition of Rugao Honghao in early 2013, which contributed approximately 25.2% of our total revenue for 2013. The Haian Hengfa Facility and the Rugao Hengfa Facility recorded revenue growth of approximately 7.0% and 2.7% respectively in 2013 compared to 2012, mainly due to the increased volume of wastewater treated at the Rugao Hengfa Facility and the Haian Hengfa Facility from approximately 7.0 million tons and 8.7 million tons in 2012 to approximately 7.7 million tons and 9.3 million tons, respectively.

Our total revenue increased by approximately 42.2% to approximately HK\$35.5 million for the five months ended 31 May 2014 from approximately HK\$25.0 million for the five months ended 31

FINANCIAL INFORMATION

May 2013, of which revenue excluding the imputed interest income increased to approximately HK\$29.6 million for the five months ended 31 May 2014 from approximately HK\$19.8 million for the five months ended 31 May 2013. During this period, the increase in revenue was primarily attributable to the increased total volume of wastewater treated and the construction income as a result of the upgrade works of the Haian Hengfa Facility and improvement works of the Rugao Hengfa Facility which amounted to approximately HK\$4.9 million and HK\$2.3 million, respectively while no construction revenue was recognised for the five months ended 31 May 2013.

For details on the volume of wastewater treated by our Group during the Track Record Period, please refer to the section headed “Business — Details of Our Wastewater Treatment Facilities” in this prospectus.

Our imputed interest income represents the finance income recognised on receivables under service concession arrangements and made up approximately 23.0%, 22.3%, 20.9%, 20.7% and 16.8% of our total revenue for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2013 and 2014, respectively.

Cost of Sales

Our cost of sales consists of (i) overhead costs, (ii) direct labour costs; (iii) repair and maintenance costs, (iv) raw materials costs, and (v) construction costs.

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

	Year ended 31 December						Five months ended 31 May			
	2011	2011	2012	2012	2013	2013	2013	2013	2014	2014
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
	(Unaudited)									
Cost of sales										
Overhead costs	5,395	51.3%	5,546	53.6%	7,617	48.3%	2,440	50.8%	4,150	31.0%
Direct labour costs	2,337	22.3%	2,543	24.6%	2,972	18.8%	1,063	22.1%	1,379	10.3%
Repair and maintenance costs	1,819	17.3%	1,588	15.3%	2,864	18.2%	740	15.4%	627	4.7%
Raw materials costs	957	9.1%	673	6.5%	2,316	14.7%	560	11.7%	902	6.7%
Construction costs	—	—	—	—	—	—	—	—	6,349	47.3%
Total	10,508	100.0%	10,350	100.0%	15,769	100.0%	4,803	100.0%	13,407	100.0%

Throughout the Track Record Period, our cost of sales accounted for approximately 23.6%, 22.1%, 24.2%, 19.2% and 37.7% of our revenue for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2013 and 2014, respectively. Overhead costs primarily consist of expenses related to electricity and utilities. Direct labour costs primarily consist of expenses related to salaries and other employee related benefits. Our repair and maintenance costs primarily consist of expenses relating to the repair and maintenance of our wastewater treatment facilities. Our raw materials costs primarily consist of the cost of chemicals consumed during our wastewater treatment operations. Our construction costs primarily consist of costs relating to the upgrade works of the Haian Hengfa Facility and the improvement works of the Rugao Hengfa Facility.

FINANCIAL INFORMATION

Our total cost of sales decreased by 1.5% to approximately HK\$10.4 million in 2012 from approximately HK\$10.5 million in 2011 primarily due to the combined effect of (i) the decrease in repair and maintenance costs of approximately HK\$0.2 million due to the absence of a one-off greenification expense which was incurred in 2011 as a result of greenifying the surrounding area of the Haian Hengfa Facility of approximately HK\$0.2 million, and (ii) the decrease in raw materials costs of approximately HK\$0.3 million. The aforesaid decrease in repair and maintenance costs as well as raw materials costs were partially offset by (i) an increase in overhead costs of approximately HK\$0.2 million due to the increase in the volume of wastewater treated by our facilities in 2012, and (ii) an increase in direct labour costs of approximately HK\$0.2 million due to the increases in the basic salaries of our employees.

Our total cost of sales increased by 52.4% to approximately HK\$15.8 million in 2013 from approximately HK\$10.4 million in 2012 primarily due to (i) the increase in overhead costs of approximately HK\$2.1 million due to the increase in electricity costs of the Rugao Hengfa Facility because of the need to operate additional equipment and machinery to treat the increased volume of wastewater in 2013, (ii) the increase in raw materials costs of approximately HK\$1.6 million, (iii) the increase in repair and maintenance costs of approximately HK\$1.3 million due to the replacement of obsolete parts of the Rugao Hengfa Facility, and (iv) the increase in direct labour costs of approximately HK\$0.4 million mainly due to the increase in basic salaries of our employees.

Our total cost of sales increased by approximately 179.1% to approximately HK\$13.4 million for the five months ended 31 May 2014 from approximately HK\$4.8 million for the five months ended 31 May 2013 primarily due to (i) the construction costs of approximately HK\$6.3 million incurred as a result of the upgrade works of the Haian Hengfa Facility and the improvement works of the Rugao Hengfa Facility both commenced during the five months ended 31 May 2014 while no construction cost was incurred for the five months ended 31 May 2013, (ii) the increase in overhead costs of approximately HK\$1.7 million mainly due to the increase in electricity costs of the Rugao Hengfa Facility because of the need to operate additional equipment and machinery to treat the increased volume of wastewater during the five months ended 31 May 2014, (iii) the increase in direct labour costs of approximately HK\$0.3 million mainly due to the increase in basic salaries of our employees, and (iv) an increase in raw materials costs of approximately HK\$0.3 million due to the increase in chemicals used to treat the increased volume of wastewater processed during the five months ended 31 May 2014.

The fluctuation of raw material costs during the Track Record Period was attributable to the fluctuation in the amount of chemicals consumed in our wastewater treatment operations. The consumption of chemicals in wastewater treatment operations is dependent on a combination of factors, including but not limited to the volume and quality of the incoming wastewater, solid waste carried in the incoming wastewater, temperature, duration of each wastewater treatment process, and the frequency of sludge treatment, some of which are not under our control. Our Directors confirmed that there was no specific event identified which had material impact on the amount of chemicals consumed during our wastewater treatment operation during the Track Record Period.

Gross Profit and Gross Profit Margin

Gross profit is equal to revenue less cost of sales. Gross profit margin is equal to gross profit divided by revenue, expressed as a percentage.

FINANCIAL INFORMATION

The table below shows our gross profit and gross profit margin for each of our facilities during the Track Record Period:

	Year ended 31 December						Five months ended 31 May			
	2011	2011	2012	2012	2013	2013	2013	2013	2014	2014
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Haian Hengfa Facility	7,191	60.2%	7,778	63.1%	8,249	62.5%	3,295	65.8%	4,593	42.5%
Rugao Hengfa Facility	26,861	82.4%	28,772	83.2%	25,959	73.1%	11,727	80.9%	10,428	61.4%
Rugao Honghao Facility	—	—	—	—	15,113	92.2%	5,168	94.2%	7,113	91.6%
Total gross profit/overall gross profit margin	34,052	76.4%	36,550	77.9%	49,321	75.8%	20,190	80.8%	22,134	62.3%

We recorded overall gross profit margins of approximately 76.4%, 77.9%, 75.8%, 80.8% and 62.3% for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2013 and 2014, respectively. Generally, the types of wastewater treated by the Rugao Hengfa Facility and the Rugao Honghao Facility provide higher margins than the treatment of municipal wastewater as mentioned in the CBRE Industry Report. For details regarding our wastewater treatment facilities and the types of wastewater they treat, please refer to the section headed “Business — Details of our Wastewater Treatment Facilities” in this prospectus.

Our gross profit increased by approximately 7.3% to approximately HK\$36.6 million in 2012 from approximately HK\$34.1 million in 2011 and our gross profit margin increased to approximately 77.9% in 2012 from approximately 76.4% in 2011, primarily due to the combined effect of (i) our increased revenue, and (ii) a decrease in cost of sales as illustrated above. Our gross profit increased by approximately 34.9% to approximately HK\$49.3 million in 2013 from approximately HK\$36.6 million in 2012 and our average gross profit margin decreased slightly to approximately 75.8% in 2013 from approximately 77.9% in 2012, primarily due to the abovementioned overall increase in cost of sales. Our gross profit increased by approximately 9.6% to approximately HK\$22.1 million for the five months ended 31 May 2014 from approximately HK\$20.2 million for the five months ended 31 May 2013, primarily due to the relevant construction revenue and construction costs recognised during the five months ended 31 May 2014 of approximately HK\$7.2 million and HK\$6.3 million, respectively, in relation to the upgrade works of the Haian Hengfa Facility and the improvement works of the Rugao Hengfa Facility. As the gross profit margins for the construction revenue of the upgrade works of the Haian Hengfa Facility and the improvement works of the Rugao Hengfa Facility are lower than the historical gross profit margin for the operation of our wastewater treatment facilities during the Track Record Period, our gross profit margin decreased to approximately 62.3% for the five months ended 31 May 2014 from approximately 80.8% for the five months ended 31 May 2013.

The gross profit margin of the Haian Hengfa Facility increased from approximately 60.2% in 2011 to approximately 63.1% in 2012 mainly due to the absence of the one-off greenification expense incurred in 2011 as discussed in the paragraph headed “Review of Historical Operational Results — Cost of Sales” in this section. The gross profit margin of the Haian Hengfa Facility decreased slightly

to approximately 62.5% in 2013 from approximately 63.1% in 2012 mainly due to the increase in its overall cost of sales as discussed in the paragraph headed “Review of Historical Operational Results — Cost of Sales” in this section. The gross profit margin of the Rugao Hengfa Facility increased slightly from approximately 82.4% in 2011 to approximately 83.2% in 2012. The gross profit margin of the Rugao Hengfa Facility decreased to approximately 73.1% in 2013 from approximately 83.2% in 2012 mainly due to the significant increase in raw materials costs and the replacement of its sludge treatment equipment as discussed in the paragraph headed “Review of Historical Operational Results — Cost of Sales” in this section. The gross profit margin of the Haian Hengfa Facility decreased to approximately 42.5% for the five months ended 31 May 2014 from approximately 65.8% for the five months ended 31 May 2013 as the gross profit margin for the construction revenue of the upgrade works of the Haian Hengfa Facility was lower than the gross profit margin for the operation services of the Haian Hengfa Facility. The gross profit margin of the Rugao Hengfa Facility decreased to approximately 61.4% for the five months ended 31 May 2014 from approximately 80.9% for the five months ended 31 May 2013 as the gross profit margin for the construction revenue of the improvement works to the Rugao Hengfa Facility was lower than the gross profit margin for the operation services of the Rugao Hengfa Facility and the overhead costs increased by approximately HK\$1.5 million mainly due to the increase in electricity costs of the Rugao Hengfa Facility because of the need to operate additional equipment and machinery to treat the increased volume of wastewater as well as the increase in sludge treatment costs in relation to the increased volume of wastewater treated during the five months ended 31 May 2014.

Other Income and Gains

The following table sets forth a breakdown of our other income and gains during the Track Record Period:

— 211 —

FINANCIAL INFORMATION

Notes:

- (1) The government subsidies were a one-off items granted to each of Haian Hengfa and Rugao Hengfa for the purpose of carrying out environmental protection works which had no unfulfilled conditions or contingencies.
- (2) “Others” primarily consisted of miscellaneous and one-off items.

Our other income and gains increased by approximately 2.5% to approximately HK\$0.5 million in 2012 from approximately HK\$0.5 million in 2011 and was primarily attributable to interest income derived from an advance to 如皋市新區基礎設施投資有限公司 (Rugao City New Infrastructure Investment Company Limited) (“**Rugao Infrastructure Investment Company**”), an indirectly wholly-owned subsidiary of one of our customers, in October 2012, which is further discussed in the paragraph headed “Certain Selected Statements of Financial Position Line Items — Prepayment and Other Receivables” in this section, but the effect was partially offset by the absence of a refund of sewage discharge fee which was recognised in 2011. Other income and gains increased by approximately 9.5 times to approximately HK\$5.7 million in 2013 from approximately HK\$0.5 million in 2012 and was mainly attributable to (i) the gain we recorded by acquiring Greatcorp in 2013, and (ii) the interest income derived from the advance to Rugao Infrastructure Investment Company which was fully repaid in October 2013.

Other income and gains decreased by approximately 96.6% to approximately HK\$0.1 million for the five months ended 31 May 2014 from approximately HK\$4.2 million for the five months ended 31 May 2013, which was mainly attributable to the absence of the gains on bargain purchase of Greatcorp which occurred in February 2013 and the interest income derived from the advance to Rugao Infrastructure Investment Company which was fully repaid in October 2013.

Administrative Expenses

Administrative expenses consist of (i) salaries and staff costs, (ii) depreciation of our office equipment and motor vehicles, (iii) travel expenses, (iv) office expenses, (v) professional fees paid to legal counsel, accountants and other intermediaries, (vi) entertainment expenses, (vii) various taxes, fees and levies, and (viii) other miscellaneous administrative expenses.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 December						Five months ended 31 May			
	2011	2011	2012	2012	2013	2013	2013	2013	2014	2014
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
	(Unaudited)									
Salaries and staff costs	1,094	34.6%	1,068	41.2%	934	20.6%	484	46.1%	1,147	7.9%
Depreciation	80	2.5%	77	3.0%	130	2.9%	53	5.0%	56	0.4%
Travel expenses	504	15.9%	552	21.3%	371	8.2%	108	10.3%	414	2.9%
Office expenses	182	5.8%	110	4.2%	95	2.1%	38	3.6%	67	0.5%
Professional fees	346	10.9%	57	2.2%	1,622	35.6%	35	3.3%	11,710	81.1%
Entertainment expenses	548	17.3%	408	15.7%	637	14.0%	154	14.7%	224	1.6%
Taxes, fees and levies ⁽¹⁾	306	9.7%	225	8.7%	422	9.3%	73	7.0%	547	3.8%
Other administrative expenses	105	3.3%	96	3.7%	332	7.3%	106	10.0%	269	1.8%
Total	3,165	100.0%	2,593	100.0%	4,543	100.0%	1,051	100.0%	14,434	100.0%

Note:

- (1) Taxes, fees and levies include PRC property tax paid by our PRC subsidiaries and stamp duties paid by us with respect to the transfer of shares in Everbest Water Treatment Development as part of our Reorganisation in the five months ended 31 May 2014.

As a percentage of our revenue, our administrative expenses represented approximately 7.1%, 5.5%, 7.0%, 4.2% and 40.6% for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2013 and 2014, respectively.

Our administrative expenses decreased by approximately 18.1% to approximately HK\$2.6 million in 2012 from approximately HK\$3.2 million in 2011. The decrease was largely attributable to the 83.5% reduction in professional fees as we incurred professional fees in 2011 to have valuation analyses conducted on a subsidiary of our Group. Entertainment expenses and taxes, fees and levies also decreased in 2012. Our administrative expenses increased by approximately 75.2% to approximately HK\$4.5 million in 2013 from approximately HK\$2.6 million in 2012. The increase in administrative expenses in 2013 was primarily attributable to professional fees of approximately HK\$1.6 million in relation to the Listing. Our administrative expenses increased by approximately 12.7 times to approximately HK\$14.4 million for the five months ended 31 May 2014 from approximately HK\$1.1 million for the five months ended 31 May 2013, which was primarily attributable to the professional fees of HK\$11.7 million incurred in relation to the Listing during the five months ended 31 May 2014. Salaries and staff costs remained relatively stable at approximately HK\$1.1 million in 2011 and 2012. Salaries and staff costs decreased to approximately HK\$0.9 million in 2013 primarily due to the absence of an one-off excursion for employees of our Group in 2012 and the downsizing of Haian Property as a result of the winding down of its business. Salaries and staff costs increased by approximately 137.0% to approximately HK\$1.1 million for the five months ended 31 May 2014 from approximately HK\$0.5 million for the five months ended 31 May 2013 due to the hiring of more employees, including senior personnel, as our operations expanded.

FINANCIAL INFORMATION

Finance Costs

Finance costs comprise of interest on a bank loan and an increase in discounted amounts of provision for major overhauls arising from the passage of time. Our finance costs increased by approximately 4.4 times to approximately HK\$0.5 million for 2012 from approximately HK\$91,000 for 2011. The increase in interest expenses was primarily attributable to interest expenses arising from a bank loan of approximately HK\$24.9 million we drew down in 2012, whereas in 2011 we had no interest-bearing bank loans. Our finance costs incurred in 2011 resulted from an increase in discounted amounts of provisions for major overhauls arising from the passage of time as we are obligated to maintain our facilities we operate to a certain level of serviceability and to restore the facilities to a specific condition before they are handed over to the relevant local government authority or administrative committee at the end of each of their respective service concession arrangements.

Our finance costs increased by approximately four times to approximately HK\$2.5 million for 2013 from approximately HK\$0.5 million for 2012. The increase in interest expenses was primarily attributable to (i) the interest expenses from the bank loan drawn down in October 2012 and was repaid in October 2013, and (ii) the consolidation of interest expenses arising from the bank loan of Greatcorp which was acquired by our Group in February 2013.

Our finance costs decreased by approximately 65.5% to approximately HK\$0.4 million for the five months ended 31 May 2014 from approximately HK\$1.1 million for the five months ended 31 May 2013. The decrease in finance costs was primarily attributable to the full repayment in October 2013 of the bank loan drawn down in October 2012. Thus, associated interest expenses were not incurred.

Income Tax Expense

We are subject to PRC enterprise income taxes (“EIT”) as our operating subsidiaries are located in China. Our subsidiaries located in China have been subject to EIT at the statutory tax rate of 25% since 1 January 2008. Since our subsidiaries are considered public infrastructure projects, some of our subsidiaries are entitled to a tax holiday of a two-year full exemption followed by a three-year 50% exemption commencing from the first year it generates operating income. For details regarding tax holidays applicable to our Group, please refer to the paragraph headed “Major Factors Affecting Our Operational Results — Taxation” in this section.

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. 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 the PRC and the jurisdiction of the foreign investors. For our Group, the applicable rate is 5% or 10%. Our Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

The effective tax rates we were subject to for the financial years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2013 and 2014 were approximately 18.5%, 20.5%, 29.3%, 25.8% and 72.8%, respectively. The substantial increase in the effective tax rate from 2012 to

FINANCIAL INFORMATION

2013 was primarily attributable to the expiration of the tax holiday for Rugao Hengfa at the end of 2012. The substantial increase in the effective tax rate from the five months ended 31 May 2013 to the five months ended 31 May 2014 was primarily attributable to the non-tax deductible listing expense.

During the Track Record Period, our Directors confirmed that we had made all the required tax filings under the relevant tax laws and regulations in the relevant jurisdictions, have paid all outstanding tax liabilities on time and are not aware of any dispute with the relevant tax authorities.

Our income tax expense increased by approximately 20.6% to approximately HK\$7.0 million in 2012 from approximately HK\$5.8 million in 2011, which was in line with the increase in our profit from our wastewater treatment operations as discussed in the paragraph headed “Review of Historical Operational Results — Profit” in this section.

Our income tax expense increased by approximately 101.9% to approximately HK\$14.1 million in 2013 from approximately HK\$7.0 million in 2012, which was in line with the increase in profit as discussed in the paragraph headed “Review of Historical Operational Results — Profit” in this section and the abovementioned expiration of the tax holiday for Rugao Hengfa.

Our income tax expense decreased by approximately 5.1% to approximately HK\$5.4 million for the five months ended 31 May 2014 from approximately HK\$5.7 million for the five months ended 31 May 2013, which was mainly attributable to (i) Haian Hengfa obtaining preferential income tax treatment on 21 February 2014 whereby its income tax is taxed at 90% of its revenue, and (ii) the reversal of the overprovision of withholding tax on the distributable profits derived from Haian Property of approximately HK\$0.4 million.

Notwithstanding the profit before tax for the five months ended 31 May 2014 decreased by approximately 66.4% as compared to the five months ended 31 May 2013, having taken into account the decrease in profit before tax was mainly due to the listing expenses, which were non-tax deductible, the income tax expenses decreased by only approximately 5.1% for the five months ended 31 May 2014 as compared to the five months ended 31 May 2013.

Profit

Our profit attributable to owners of the parent increased by approximately 6.3% to approximately HK\$25.5 million in 2012 from approximately HK\$24.0 million in 2011 primarily due to the aforementioned reasons relating to increase in revenue.

Our profit attributable to owners of the parent increased by approximately 26.6% to approximately HK\$32.3 million in 2013 from approximately HK\$25.5 million in 2012 primarily due to the increased revenue following the acquisition of Rugao Honghao in 2013.

Our profit attributable to owners of the parent decreased by approximately 93.3% to approximately HK\$1.1 million for the five months ended 31 May 2014 from approximately HK\$15.8 million for the five months ended 31 May 2013 primarily due to (i) the substantial increase in our administrative expenses due to professional fees incurred in connection with the Listing, and (ii) the increase in our cost of sales as discussed above.

FINANCIAL INFORMATION

Net Profit Margin

Our net profit margin increased to approximately 57.6% in 2012 from approximately 57.3% in 2011. The increase was mainly attributable to the abovementioned factors affecting our revenue, cost of sales, gross profit and gross profit margins.

Our net profit margin decreased to approximately 52.1% in 2013 from approximately 57.6% in 2012. The decrease was primarily attributable to (i) a decrease in our gross profit margin, and (ii) the increase in the effective tax rate due to the abovementioned expiration of the tax holiday for Rugao Hengfa.

Our net profit margin decreased to approximately 5.7% for the five months ended 31 May 2014 from approximately 66.0% for the five months ended 31 May 2013. The decrease was mainly attributable to (i) the decrease in our gross profit margin as a result of the recognition of construction revenue and costs for the upgrade works of the Haian Hengfa Facility and the improvement works to the Rugao Hengfa Facility, and (ii) the substantial increase in our administrative expenses due to professional fees incurred in connection with the Listing. We recognised approximately HK\$1.6 million and HK\$11.7 million of listing expenses in our consolidated statement of comprehensive income for the year ended 31 December 2013 and the five months ended 31 May 2014, respectively. Excluding the listing expenses, we would have recorded net profit margin of approximately 54.5% and 38.5% for such periods, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity and capital requirements primarily relate to investments in our projects, construction of our wastewater treatment facilities and purchases of equipment as well as costs and expenses related to the operation and maintenance of our facilities. Historically, we have met our capital expenditures, working capital and other liquidity requirements principally from cash generated from our operations, bank borrowings and shareholder's loan/equity. Going forward, we expect to fund our working capital, capital expenditures and other capital requirements with a combination of various sources, including but not limited to cash generated from our operations, bank borrowings, the net proceeds from the Share Offer as well as other external equity and debt financing.

FINANCIAL INFORMATION

Summary of Cash Flow Movements

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

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Net cash flows from operating activities.....	4,879	16,045	39,256	3,996	16,507
Net cash flows from/(used in) investing activities.....	(43,423)	(43,028)	183,615	38,714	428
Net cash flows from/(used in) financing activities	30,939	42,252	(178,070)	(47,641)	(52,884)
Cash and cash equivalents at end of year/period	14,195	29,606	75,625	25,079	37,990

Net Cash Flows from Operating Activities

During the Track Record Period, we generated cash from operating activities primarily through the receipt of payments for the provision of our wastewater treatment services. Our cash outflows from operating activities were primarily used for the purchase of electricity and raw materials, employee expenses and other operating costs relating to our wastewater treatment facilities.

In 2011, net cash generated from operating activities was approximately HK\$4.9 million. This comprised of operating cash flows before movements in working capital of approximately HK\$31.9 million adjusted for net working capital outflow of approximately HK\$23.4 million and income tax paid of approximately HK\$3.6 million. The net working capital outflow was primarily attributable to (i) the increase in receivables under service concession arrangements of approximately HK\$15.4 million mainly due to the complexity of the internal administrative procedures of our customers in relation to the payment of our wastewater treatment fees, (ii) the decrease in trade payables of approximately HK\$6.0 million mainly due to the settlement of outstanding construction payments relating to the construction of phase II of the Rugao Hengfa Facility, and (iii) the decrease in other payables and accruals of approximately HK\$2.4 million primarily due to the other tax payment of Haian Property.

In 2012, net cash generated from operating activities was approximately HK\$16.0 million. This comprised of operating cash flows before movements in working capital of approximately HK\$34.8 million adjusted for net working capital outflow of approximately HK\$14.7 million and income tax paid of approximately HK\$4.1 million. The net working capital outflow was primarily attributable to the increase in receivables under service concession arrangements of approximately HK\$10.2 million mainly due to the complexity of the internal administrative procedures of our customers in relation to the payment of our wastewater treatment fees.

FINANCIAL INFORMATION

In 2013, net cash generated from operating activities was approximately HK\$39.3 million. This comprised of operating cash flows before movements in working capital of approximately HK\$46.6 million adjusted for net working capital outflow of approximately HK\$1.7 million and income tax paid of approximately HK\$5.7 million. The net working capital outflow was primarily attributable to the decrease in other payables and accruals (as adjusted by excluding the change in other payables and accruals arising from the consolidation of the relevant balance of Rugao Honghao of approximately HK\$3.0 million) of approximately HK\$7.0 million mainly due to the full settlement of advances from acquaintances of our Shareholders who are Independent Third Parties. This was partially offset by a decrease in receivables under service concession arrangements (as adjusted by excluding the change in receivables under service concession arrangement arising from the consolidation of the relevant balance of Rugao Honghao of approximately HK\$86.7 million) of approximately HK\$4.5 million mainly due to the receipt of lump sum payments from our customers in respect of our wastewater treatment fees in late 2013 as a result of our management's efforts to collect the outstanding receivables.

For the five months ended 31 May 2014, net cash generated from operating activities was approximately HK\$16.5 million. This comprised operating cash flows before movements in working capital of approximately HK\$8.4 million adjusted for net working capital inflow of approximately HK\$21.5 million and income tax paid of approximately HK\$13.4 million. The net working capital inflow was primarily attributable to (i) the decrease in receivables under service concession arrangements of approximately HK\$19.2 million due to the payment of the wastewater treatment tariff by our customers, (ii) the increase in trade payables of approximately HK\$3.8 million mainly due to the construction cost payable for the upgrade of the Haian Hengfa Facility, and (iii) the increase in other payables and accruals of approximately HK\$1.6 million mainly due to payables in relation to the listing expenses. This was partially offset by the increase in prepayments and other receivables of approximately HK\$3.1 million which was primarily attributable to (i) the prepayment of construction costs for the upgrade works to the Haian Hengfa Facility, and (ii) the prepayment of professional fees in relation to the Listing.

Net Cash Flows from/used in Investing Activities

Our cash used in investing activities during the Track Record Period primarily consisted of payments for the purchase of property, plant and equipment, an advance to Rugao Infrastructure Investment Company, increase in other receivables and increase in amounts due from related parties. Our cash inflow from investing activities primarily consisted of interest received, cash and bank balances acquired from the acquisition of Greatcorp as well as the repayment from Rugao Infrastructure Investment Company, decrease in other receivables and decrease in amounts due from related parties.

We recorded net cash used in investing activities amounting to approximately HK\$43.4 million and approximately HK\$43.0 million for the years ended 31 December 2011 and 2012 respectively. The increase in net cash used in investing activities in 2011 was primarily attributable to (i) the increase in other receivables of approximately HK\$6.0 million mainly due to the partial repayment of our advances to the acquaintances of some of our Shareholders during the year, and (ii) the increase in amounts due from related parties of approximately HK\$37.1 million resulting from the allocation of funds among some of our Shareholders and the private group of companies controlled by some of our

FINANCIAL INFORMATION

Controlling Shareholders. The decrease in net cash used in investing activities in 2012 was primarily attributable to the combined effect of (i) the advance to Rugao Infrastructure Investment Company of approximately HK\$24.6 million in October 2012 as further discussed in the paragraph headed “Financial Information — Certain Selected Statements of Financial Position Line Items — Prepayment and Other Receivables” in this section, and (ii) the relatively slower increase in amounts due from related parties for the year ended 31 December 2011 as compared to that for the year ended 31 December 2012 due to the allocation of funds among some of our Shareholders and the private group of companies controlled by some of our Controlling Shareholders. For the year ended 31 December 2013, we recorded net cash flows from investing activities of approximately HK\$183.6 million, which was primarily attributable to (i) the repayment of the aforesaid advance by Rugao Infrastructure Investment Company in full with interest of approximately HK\$25.2 million in October 2013, (ii) the consolidation of cash and bank balances of Greatcorp and Rugao Honghao of approximately HK\$13.4 million following the acquisition of Greatcorp by our Group in February 2013, (iii) the decrease in other receivables of approximately HK\$33.4 million mainly due to the full settlement of the advances granted to acquaintances of some of our Shareholders and Rugao Infrastructure Investment Company which are Independent Third Parties, and (iv) the decrease in amounts due from related parties of approximately HK\$111.6 million resulting from the allocation of funds among our Shareholders and the private group of companies controlled by some of our Controlling Shareholders. For the five months ended 31 May 2014, we recorded net cash flows from investing activities of approximately HK\$0.4 million, which was primarily attributable to the decrease in amounts due from related parties of approximately HK\$0.5 million which was partially offset by the payment for purchases of items of property, plant and equipment of approximately HK\$0.1 million.

Net Cash Flows from/used in Financing Activities

Our cash inflow from financing activities during the Track Record Period primarily consisted of bank borrowings and increase in amounts due to related parties and a non-controlling equity holder of Haian Hengfa. Our cash outflow from financing activities primarily consisted of repayment of bank borrowings, decreases in amounts due to related parties and a non-controlling equity holder of Haian Hengfa and interest paid.

In 2011, our net cash used in financing activities was approximately HK\$30.9 million. This amount primarily reflected (i) the increase in amounts due to related parties of approximately HK\$27.1 million resulting from the allocation of funds among our Shareholders and the private group of companies controlled by our Controlling Shareholders, and (ii) the increase in the amounts due to a non-controlling equity holder of Haian Hengfa of approximately HK\$3.8 million.

In 2012, our net cash flows from financing activities was approximately HK\$42.3 million. This amount primarily reflected (i) our bank borrowings of approximately HK\$24.6 million, (ii) the increase in amounts due to related parties of approximately HK\$14.4 million resulting from the allocation of funds amongst our Shareholders and the private group of companies controlled by our Controlling Shareholders, and (iii) the increase in the amounts due to a non-controlling equity holder of Haian Hengfa of approximately HK\$3.6 million.

FINANCIAL INFORMATION

In 2013, our net cash flows used in financing activities was approximately HK\$178.1 million. The amount primarily reflected (i) our full repayment of our bank borrowings drawn down in 2012 as discussed in the paragraph headed “Financial Information — Indebtedness — Loans and Borrowings” in this section as well as our partial repayment of the bank loan acquired via our acquisition of Greatcorp of approximately HK\$33.0 million in aggregate, (ii) the decrease in amounts due to related parties of approximately HK\$142.7 million resulting from the allocation of funds among our Shareholders and the private group of companies controlled by our Controlling Shareholders, and (iii) interest payment on bank borrowings of approximately HK\$2.3 million.

For the five months ended 31 May 2014, our net cash flows used in financing activities was approximately HK\$52.9 million. The amount primarily reflected the settlement of (i) the amount due to a non-controlling equity holder of Haian Hengfa of approximately HK\$32.8 million, (ii) the amounts due to related parties of approximately HK\$15.8 million including the shareholders’ loans of HK\$7.0 million, (iii) the bank borrowings of approximately HK\$3.9 million, and (iv) the interest payment on bank borrowings of approximately HK\$0.3 million.

WORKING CAPITAL

Taking into account the net proceeds available to us from the Share Offer, our operating cash flow and bank borrowings, our Directors are of the view that our Group has sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

NET CURRENT ASSETS

Details of our current assets and liabilities as at 31 December 2011, 2012 and 2013, 31 May 2014 and also 31 July 2014 are as follows:

	As at 31 December			As at 31 May	As at 31 July
	2011	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)
CURRENT ASSETS					
Inventories.....	130	124	349	416	375
Receivables under service concession arrangements and bills receivable....	29,636	40,451	50,804	28,226	33,191
Prepayment and other receivables	27,324	51,201	6,238	4,620	3,618
Amounts due from related parties	83,197	103,155	542	—	—
Cash and cash equivalents	14,195	29,606	75,625	37,990	48,824
Total current assets.....	154,482	224,537	133,558	71,252	86,008
CURRENT LIABILITIES					
Trade payables.....	5,748	1,476	2,474	6,095	8,668
Other payables and accruals.....	42,299	45,593	43,003	6,522	5,152
Amounts due to related parties	74,998	90,207	8,965	—	—
Interest-bearing bank borrowing	—	24,878	17,550	13,650	31,650
Income tax payables	1,390	1,926	9,900	1,385	1,367
Total current liabilities	124,435	164,080	81,892	27,652	46,837
Net Current Assets	<u>30,047</u>	<u>60,457</u>	<u>51,666</u>	<u>43,600</u>	<u>39,171</u>

As at 31 December 2011, we had net current assets of approximately HK\$30.0 million. The key components of our current assets as at such date were mainly amounts due from related parties, receivables under service concession arrangements, prepayments and other receivables as well as cash and cash equivalents. The key components of our current liabilities as at such date were mainly other payables and accruals as well as amounts due to related parties.

As at 31 December 2012, we had net current assets of approximately HK\$60.5 million. The key components of our current assets as at such date were mainly receivables under service concession arrangements, prepayments and other receivables, cash and cash equivalents as well as amounts due from related parties. The key components of our current liabilities as at such date were mainly other payables and accruals, an interest bearing bank borrowing as well as amounts due to related parties. Our net current assets increased to approximately HK\$60.5 million as at 31 December 2012 from approximately HK\$30.0 million as at 31 December 2011. This was primarily attributable to (i) the increase in receivables under service concession agreements of approximately HK\$10.8 million, (ii)

FINANCIAL INFORMATION

an increase in prepayments and other receivables by approximately HK\$23.9 million, and (iii) an increase in amounts due from related parties by approximately HK\$20.0 million. These amounts were partially offset by an increase in the interest-bearing bank borrowing of approximately HK\$24.9 million.

As at 31 December 2013, we had net current assets of approximately HK\$51.7 million. The key components of our current assets as at such date were mainly receivables under service concession arrangements, prepayments and other receivables as well as cash and cash equivalents. The key components of our current liabilities as at such date were mainly other payables and accruals as well as an interest-bearing bank borrowing. Our net current assets decreased to approximately HK\$51.7 million as at 31 December 2013 from approximately HK\$60.5 million as at 31 December 2012. This was primarily attributable to (i) the decrease in prepayments and other receivables of approximately HK\$45.0 million, and (ii) the repayments from related parties of approximately HK\$102.6 million. These amounts were partially offset by (i) a decrease in amounts due to related parties of approximately HK\$81.2 million, and (ii) an increase in cash and cash equivalents of approximately HK\$46.0 million.

As at 31 May 2014, we had net current assets of approximately HK\$43.6 million. The key components of our current assets as at such date were mainly receivables under service concession arrangements, prepayments and other receivables as well as cash and cash equivalents. The key components of our current liabilities as at such date were mainly trade payables, other payables and accruals and an interest-bearing bank borrowing. Our net current assets decreased to approximately HK\$43.6 million as at 31 May 2014 from approximately HK\$51.7 million as at 31 December 2013. This was primarily attributable to the combined effect of (i) the decrease in receivables under service concession arrangements of approximately HK\$25.1 million due to the payment of wastewater treatment tariff by our customer, (ii) the decrease in cash and cash equivalents of approximately HK\$37.6 million mainly due to the settlement of interest-bearing bank borrowing, income tax payable as well as the amounts due to related parties, a non-controlling equity holder of Haian Hengfa and shareholders' loans, and (iii) the increase in trade payable in relation to the construction cost payable for the upgrade of the Haian Hengfa Facility. These amounts were partially offset by the decrease in (i) other payables and accruals of approximately HK\$36.5 million, (ii) income tax payable of approximately HK\$8.5 million, and (iii) interest-bearing bank borrowing of approximately HK\$3.9 million as a result of the cash settlement of the amounts due to a non-controlling equity holder of Haian Hengfa, income tax and interest-bearing bank borrowing.

For details regarding the items affecting our net current assets during the Track Record Period, please refer to the paragraph headed "Certain Selected Statements of Financial Position Line Items" in this section.

As at 31 July 2014, we had net current assets of approximately HK\$39.2 million. The key components of our current assets as at such date were mainly receivables under service concession arrangements and bills receivables, prepayments and other receivables as well as cash and cash equivalents. The key components of our current liabilities as at such date were mainly an interest-bearing bank borrowing, trade payables, other payables and accruals as well as income tax payables. Our net current assets decreased to approximately HK\$39.2 million as at 31 July 2014 from approximately HK\$43.6 million as at 31 May 2014. This was primarily attributable to the drawing of

FINANCIAL INFORMATION

a new loan of HK\$18.0 million in June 2014 that is repayable in full by 31 December 2014 and the payment of professional fees in relation to the Listing in July 2014, which resulted in (i) the increase in interest-bearing bank borrowing of approximately HK\$18.0 million, and (ii) the increase in cash and cash equivalents of approximately HK\$10.8 million. Such amounts were partially offset by the increase in the receivables under service concession arrangements and bills receivables of approximately HK\$5.0 million mainly due to the recognition of the receivables under service concession arrangement in relation to the upgrade works of Haian Hangfa Facilities and the improvement works of Rugao Hengfa Facilities.

CERTAIN SELECTED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

Receivables under Service Concession Arrangements

Components of the receivables under service concession arrangement included (i) the consideration receivables for our construction services at initial recognition, (ii) imputed interest on such receivables which would be recognised from time to time, and (iii) consideration receivables for our wastewater treatment service rendered. The portion classified as current assets as at the end of each reporting period includes billed tariffs which remain unsettled and consideration for construction services due to be received by us within 12 months from the end of each reporting period. The non-current portion represents consideration for construction services due to be received by us beyond 12 months from the end of each reporting period. For details regarding our revenue recognition, please refer to the paragraphs headed “Critical Accounting Policies and Estimates — Revenue Recognition” and “Review of Historical Operational Results — Revenue” in this section.

The following table sets forth our receivables under service concession arrangements at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Receivables under service concession arrangements	236,409	248,622	340,408	308,417
Portion classified as current assets	(29,636)	(40,451)	(50,804)	(25,745)
Non-current portion	<u>206,773</u>	<u>208,171</u>	<u>289,604</u>	<u>282,672</u>

FINANCIAL INFORMATION

The following table sets out the aging analysis of receivables under service concession arrangements at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Billed:				
Within 3 months	11,342	10,053	17,209	17,128
4 to 6 months	10,976	10,431	16,964	—
7 to 12 months.....	3,383	13,847	6,094	—
Over 1 year.....	355	2,416	4,481	—
	26,056	36,747	44,748	17,128
Not yet billed	210,353	211,875	295,660	291,289
	<u>236,409</u>	<u>248,622</u>	<u>340,408</u>	<u>308,417</u>

Generally, we bill our customer at the end of each month and allow our customers a credit period of up to 10 days after the end of each month, as prescribed in our BOT agreements. As our customers are a local government authority and a local government administrative committee in Nantong City, their payment periods are usually longer than our credit period granted to them mainly due to the complexity of their internal administrative procedures. For details relating to our billing policy, please refer to the paragraph headed “Market Risks — Credit Risk” in this section.

The billed receivables under service concession arrangements overdue but not impaired amounted to approximately HK\$26.1 million, approximately HK\$36.7 million, approximately HK\$44.7 million and approximately HK\$17.1 million as at 31 December 2011, 2012, 2013 and 31 May 2014, respectively. The increase in the billed receivables under service concession arrangements from approximately HK\$26.1 million as at 31 December 2011 to approximately HK\$36.7 million as at 31 December 2012 was mainly attributable to the combined effect of (i) the increase in revenue for the year ended 31 December 2012 as compared to the revenue for the year ended 31 December 2011 as discussed in the paragraph headed “Review of Historical Operational Results — Revenue” in this section, and (ii) the repayment periods of our customers are longer than our credit period granted to them mainly due to the complexity of their respective internal administrative procedures. The increase in the billed receivables under service concession arrangements from approximately HK\$36.7 million as at 31 December 2012 to approximately HK\$44.7 million as at 31 December 2013 was mainly attributable to the consolidation of the billed receivables under service concession arrangements of Rugao Honghao following the acquisition of Greatcorp by us in February 2013. The decrease in billed receivables under service concession arrangements to approximately HK\$17.1 million as at 31 May 2014 from approximately HK\$44.7 million as at 31 December 2013 was mainly attributable to the prompt repayment of our wastewater treatment tariff by our customers.

The turnover days of our billed receivables under service concession arrangements were approximately 134 days, 243 days, 224 days and 153 days for the years ended 31 December 2011, 2012, 2013 and for the five months ended 31 May 2014, respectively. The receivables under service

FINANCIAL INFORMATION

concession arrangements were calculated as the average opening and closing billed receivables under service concession arrangements of the year/period, divided by the billed revenue for the year/period, multiplied 365 days for the years ended 31 December 2011, 2012 and 2013 and 151 days for the five months ended 31 May 2014. The turnover days of our billed receivables under service concession arrangements increased from 134 days in 2011 to 243 days in 2012 as our customers did not settle our bills regularly. The decrease from 243 days in 2012 to 224 days in 2013 was primarily due to the receipt of lump sum payments from our customers in respect of our wastewater treatment fees in late 2013 due to our management's efforts to collect the outstanding receivables. The decrease from 224 days for the year ended 31 December 2013 to 153 days for the five months ended 31 May 2014 was primarily due to the receipt of lump sum payments from our customers in respect of our wastewater treatment fees as a result of the on-going efforts by our management in collecting the receivables.

Our Group's policy for provision for impairment of receivables under service concession arrangements is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. Our management assesses the ultimate realisation of the receivables, including the current creditworthiness and the past collection history of each customer.

No provision for impairment losses in respect of receivables under service concession arrangements was recorded at the end of each reporting period during the Track Record Period as our Directors considered that:

- our customers, being a local government authority and a local government administrative committee, are primarily concerned about ensuring uninterrupted provision of day-to-day public utility services in Haian County and Rugao City, and are likely to have access to state-owned assets and resources for securing loans and funding to service their payment obligations to public utility service providers, including those obligations owed to our Group under the relevant BOT agreements;
- the number of turnover days of our billed receivables under service concession arrangements for the year ended 31 December 2011, being 134 days, was not significantly higher than the receivables turnover days of other PRC operators of wastewater treatment facilities that were listed on the Stock Exchange during the same period, based on their financial information published in their respective listing documents;
- despite the number of turnover days of our billed receivables under service concession arrangements for the year ended 31 December 2012 increased to 243 days, we had been given assurance from the respective customers that our billed receivables would be settled in due course. Furthermore, based on our Directors' and senior management's understanding of the economic environment in Haian County and Rugao City, and their communication with the relevant government authorities at the material time, nothing had come to their attention that would have suggested a deterioration of credit-worthiness of our customers or a material possibility of default by them in respect of their payment obligations under the BOT agreements at the material time;
- the receipt of lump sum payments from our customers in respect of our billed wastewater treatment fees in late 2013 which resulted in the number of turnover days of our billed

FINANCIAL INFORMATION

receivables under service concession arrangements decreased to 224 days for the year ended 31 December 2013 and the fact that the billed receivables under our service concession arrangements as at 31 December 2013 had been fully settled as at 31 March 2014 had indicated that there was no material deterioration of financial condition or creditworthiness of our customers or collectability of our receivables under the service concession arrangements at the material time; and

- the repayment of wastewater treatment tariff by our customers during the five months ended 31 May 2014 which resulted in the number of turnover days of our receivables under service concession arrangement to further decreased to 153 days for the five months ended 31 May 2014.

Our Directors concluded that relatively high turnover days of the receivables and the relatively long payment period of our customers were due to the complexity of their internal administrative procedures. As at the Latest Practicable Date, our billed receivables under the service concession arrangements as at 31 December 2013 had already been fully settled and 37.1% of our billed receivables under the service concession arrangement as at 31 May 2014 had been settled. Accordingly, our Directors are of the view that the credit risk of our Group is not significant.

For details relating to our billing policy, please refer to the paragraph headed “Market Risks — Credit Risk” in this section.

Prepayments and Other Receivables

Prepayments and other receivables primarily include prepayments for raw materials and advances to acquaintances of our Shareholders and other parties which are Independent Third Parties. The increase in prepayments and other receivables to approximately HK\$51.2 million in 2012 from HK\$27.3 million in 2011 was primarily attributable to the advance amounting to RMB20.0 million (equivalent to approximately HK\$24.9 million) which we provided to Rugao Infrastructure Investment Company. The prepayments and other receivables decreased significantly to approximately HK\$6.2 million as at 31 December 2013. This was mainly attributable to (i) the full settlement of advances to mainly acquaintances of our Shareholders which are Independent Third Parties of approximately HK\$20.0 million, and (ii) the full repayment of the aforesaid advance to Rugao Infrastructure Investment Company.

The advances to acquaintances and an affiliate of our Group’s shareholders were non-trade related in nature, unsecured, interest-free, repayable on demand and were granted before and during the Track Record Period to promote good working relationships with the respective parties. In October 2012, Rugao Infrastructure Investment Company requested an advance from us for their short term funding needs and we granted the advance based on goodwill and our good working relationship with it. The advance was fully repaid in October 2013. Our Directors confirm that our Company does not intend to enter into similar arrangements as those discussed above in the future.

FINANCIAL INFORMATION

The prepayments and other receivables decreased to approximately HK\$4.6 million as at 31 May 2014. This was primarily attributable to the full settlement of amounts due from an affiliate of a non-controlling equity holder of Haian Hengfa. These amounts were partially offset by (i) the prepayments for construction costs in relation to the upgrade of the Haian Hengfa Facility and the improvement works to the Rugao Hengfa Facility respectively, and (ii) the prepayments of professional fees in relation to the Listing.

Amounts Due from Related Parties

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

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts due from related parties	83,197	103,155	542	—

As at 31 December 2011, 2012 and 2013, the amounts due from related parties were non-trade in nature, unsecured, interest-free, repayable on demand. The related parties are our Director and the private companies controlled by our Shareholders. The amounts resulted from the allocation of funds among the private group of companies controlled by our Shareholders and our Director. As at 31 May 2014 and the Latest Practicable Date, all amounts due from related parties had been fully settled. For details on transactions between related parties, please refer to the paragraph headed “Related Party Transactions” in this section.

Trade Payables

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

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	5,748	1,476	2,474	6,095

Trade payables primarily relate to our purchases of raw materials and parts for repair and maintenance from suppliers for use in our wastewater treatment services as well as outstanding construction payments relating to phase II of the Haian Hengfa Facility and the upgrade works of the Haian Hengfa Facility. The trade payables are non-interest bearing and are typically settled on terms of 30 days. The decreased trade payables in 2012 as compared to 2011 was mainly due to the settlement of payables relating to construction of phase II of the Haian Hengfa Facility. The increase in trade payable in 2013 as compared to 2012 was primarily due to the increase in the amounts invoiced by our suppliers in 2013 as compared to those in 2012. The increase in trade payables as at

FINANCIAL INFORMATION

31 May 2014 as compared to 31 December 2013 was primarily due to the construction cost payable in relation to the upgrade of the Haian Hengfa Facility. This construction cost is payable by instalments within two years after the completion of the construction. Save for the construction cost in relation to the upgrade of Haian Hengfa Facility, approximately 37.4% of our trade payable as at 31 May 2014 had been settled as at the Latest Practicable Date.

Other Payables and Accruals

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

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables and accruals	42,299	45,593	43,003	6,522

Other payables and accruals primarily include amounts due to a non-controlling equity holder of Haian Hengfa and its related interest costs as well as advances from acquaintances of our Shareholders which are Independent Third Parties. The advances from such acquaintances of our Shareholders were non-trade in nature, unsecured, interest-free and repayable on demand.

The amounts due to a non-controlling equity holder of Haian Hengfa and its related interest costs in aggregate amounted to approximately HK\$36.5 million, approximately HK\$40.4 million, approximately HK\$41.6 million and approximately HK\$3.5 million as at 31 December 2011, 2012, 2013 and 31 May 2014, respectively. These amounts were mainly due to the advances and relevant interest from the non-controlling equity holder of Haian Hengfa for the construction of phase II of the Haian Hengfa Facility during its construction phase. The fluctuation of the amounts due to a non-controlling equity holder of Haian Hengfa during the three years ended 31 December 2013 was mainly due to the fluctuation of the exchange rate between HK\$ and RMB as at 31 December 2011, 2012 and 2013. The decrease of such amounts in five months ended 31 May 2014 was mainly due to the settlement of such advances during the same period. As at 31 May 2014, the amounts due to a non-controlling equity holder of Haian Hengfa was approximately HK\$3.5 million, and the balance had been fully settled as at 31 July 2014.

The advances from acquaintances of our Shareholders amounted to approximately HK\$4.3 million, approximately HK\$4.3 million, nil and nil as at 31 December 2011, 2012, 2013 and 31 May 2014, respectively. These advances were non-trade in nature, unsecured, interest-free and repayable on demand and were granted to us before the Track Record Period based on goodwill and good working relationships between our Shareholders and their acquaintances which are Independent Third Parties. Our Directors confirm that our Company does not intend to enter into similar arrangements with acquaintances of our Shareholders in the future.

FINANCIAL INFORMATION

Amounts due to Related Parties

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

	As at 31 December			As at 31 May	As at 31 July
	2011	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)
Amounts due to related parties.....	74,998	90,207	8,965	—	—

The amounts due to related parties were non-trade in nature, unsecured, interest-free and repayable on demand. The fluctuation of the amounts due to related parties during the Track Record Period was due to the allocation of funds among our Shareholders and the private group of companies controlled by our Shareholders. As at 31 May 2014, the amounts due to related parties were fully settled. For details on transactions between related parties, please refer to the paragraph headed “Related Party Transactions” in this section.

INDEBTEDNESS

The following table sets forth our outstanding loans and borrowings as at the dates indicated:

	As at 31 December			As at 31 May	As at 31 July
	2011	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)
Interest-bearing bank loans					
repayable within one year					
or on demand	—	24,878	17,550	13,650	31,650

Our Group obtained two bank loans during the Track Record Period. The first loan was drawn down in October 2012 and was fully repaid in October 2013 (the “**First Loan**”). The second loan was acquired through the acquisition of Greatcorp in February 2013 (the “**Second Loan**”).

The First Loan was denominated in RMB and was a floating rate loan at 120% of the People’s Republic Bank of China’s base lending rate. It was secured by the land use rights owned by Rugao ETD Company, being a company established and authorised by Rugao ETDZ Administrative Committee, a personal guarantee of approximately HK\$24.9 million provided by Mr. Chan and a corporate guarantee of approximately HK\$24.9 million provided by Rugao ETD Company. The First Loan was fully repaid in October 2013.

The Second Loan is a five-year term loan that is repayable on demand. It is denominated in US dollars with a floating interest rate at 1.25% above the US dollar prime rate. It is secured by the wastewater treatment concession rights of the Rugao Hengfa Facility and Rugao Honghao Facility,

FINANCIAL INFORMATION

personal guarantees provided by Mr. Chan, Ms. Wong and Mr. Chan Chun Keung as well as certain properties provided by Ms. Wong and Mr. Chan Chun Keung. Pursuant to a supplemental facility letter dated 21 August 2014 issue by the relevant bank, the bank agreed to make available the facility subject to, among others, (i) the Listing consummating on or before 30 November 2014, (ii) our Company and Everbest Water Treatment Development standing in as the new guarantors, and (iii) Rugao Hengfa and Rugao Honghao undertake not to obtain further borrowings from other financial institutions without the bank's prior approval. The personal guarantees and charges will be released upon Listing. There is no material change to the terms of the Second Loan upon Listing and release of the aforesaid personal guarantees and charges based on the aforesaid supplemental facility letter.

We entered into a new loan agreement after the Track Record Period and drew down a third loan (the “**Third Loan**”) of HK\$18.0 million in June 2014. The Third Loan is a revolving loan facility that is repayable on demand. It is denominated in Hong Kong dollars with a floating interest rate at Hong Kong dollar prime rate. It is secured by (i) a corporate guarantee provided by our Company, (ii) our negative pledge not to create or permit to be created any kind of encumbrances and security interest over the whole or any part of our account receivables without the bank's prior written consent, and (iii) our undertaking to apply all dividends and distribution from our PRC subsidiaries to the repayment of all outstanding indebtedness under such facility.

The maturity profile of our interest-bearing loans as at 31 July 2014, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause is as follows:

	As at 31 July 2014
	HK\$'000 (Unaudited)
Amount repayable:	
Less than one year	26,670
More than one year, but not exceeding five years	5,985
More than five years	—
Total	<u>32,655</u>

Our Directors confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Our Directors further confirm that save as disclosed above, both the Second Loan and the Third Loan do not contain any material financial covenants.

As at the close of business on 31 July 2014, being the latest practicable date for the purpose of this indebtedness statement, we had an aggregate outstanding bank loans of approximately HK\$31.7 million.

We had no unutilised banking facilities as at the end of each reporting period during the Track Record Period and as at the Latest Practicable Date as our loans were all fully drawn down. To the best knowledge and belief of our Directors, our Group will not have difficulties in obtaining new banking facilities after Listing.

FINANCIAL INFORMATION

During the Track Record Period and up to the Latest Practicable Date, except as disclosed above in the paragraph headed “Indebtedness” in this section, our Directors confirm that our Group did not have any outstanding loan capital issued or agree to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors confirm that up to the Latest Practicable Date, there had been no material change in indebtedness and contingent liabilities since 31 July 2014. Our Directors further confirm that as at the Latest Practicable Date, our Group did not have any plans to raise any material debt financing shortly after listing.

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our major capital expenditures consist primarily of expenditures to construct wastewater treatment facilities, purchases of property, plant and equipment and other upgrades and improvement works for the wastewater treatment facilities. We incurred minimal capital expenditures during the years ended 31 December 2011, 2012 and 2013 as the Haian Hengfa Facility and the Rugao Hengfa Facility had substantially completed construction prior to the commencement of the Track Record Period. Although the construction of the Rugao Honghao Facility was completed in late 2011, the acquisition of Rugao Honghao by our Group was completed in February 2013 and therefore no major capital expenditures were recognised during the three year ended 31 December 2013 in relation to its construction.

During the five months ended 31 May 2014, we incurred capital expenditures of approximately HK\$4.3 million for the upgrade works of the Haian Hengfa Facility and approximately HK\$2.0 million for the improvement works of the Rugao Hengfa Facility. Save as disclosed herein, no major capital expenditures were recognised in our Group’s financial results during the Track Record Period.

Planned Capital Expenditures

Our planned capital expenditures for the year ending 31 December 2014 is approximately HK\$46.0 million which is expected to be financed by our cash inflows from operating activities and net proceeds from the Share Offer. Our planned capital expenditures primarily relate to the upgrading of existing wastewater treatment facilities. For details regarding amounts of funds allocated from the net proceeds of the Share Offer for the planned capital expenditures, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. Save for the aforesaid planned capital expenditures, we plan to fund our future capital expenditures with sources including but not limited to, cash inflows from operating activities, bank borrowings and net proceeds from the Share Offer.

Save for the above planned expenditures, our Directors confirm that up to the Latest Practicable Date, there has been no material change in capital commitments of our Group since 31 May 2014.

FINANCIAL INFORMATION

Our actual capital expenditures may differ from the amounts set out above due to various factors, including our future cash flows, results of operations and financial condition, changes in China and the world economy, the availability of financing on terms acceptable to us, technical or other problems in obtaining or installing equipment, changes in the regulatory environment in China and other factors. We may also pursue expansion through internal development, acquisitions of existing operations, investments in other businesses or joint ventures with third parties, which may cause our capital expenditures to increase.

CONTRACTUAL OBLIGATIONS

Capital Commitments

At the end of each reporting period during the Track Record Period and as at 31 July 2014, the Group had the following significant capital commitments with respect of service concession arrangements:

	As at 31 December			As at 31 May	As at 31 July
	2011	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for	—	—	4,916	5,087	2,289
Authorised, but not provided for	—	—	56,753	47,344	4,789
	<u>—</u>	<u>—</u>	<u>61,669</u>	<u>52,431</u>	<u>50,186</u>

Contingent Liabilities

At the end of each reporting period during the Track Record Period and as at 31 July 2014, the Group had no contingent liabilities.

Off-balance Sheet Commitments and Arrangements

As at the Latest Practicable Date, we had not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We had not entered into any derivative contracts that are indexed to the Shares and classified as shareholder's equity, or that had not been reflected in our financial information. We did not have any variable interests in any unconsolidated entity that provided financing, liquidity or credit support to us, or engaged in leasing, hedging or research and development services with us.

FINANCIAL INFORMATION

MAJOR FINANCIAL RATIOS ANALYSIS

	As at 31 December			As at 31 May
	2011	2012	2013	2014
Gearing ratio	1.3	1.3	0.7	0.1
Current ratio	1.2	1.4	1.6	2.6
Quick ratio	1.2	1.4	1.6	2.6

	Year ended 31 December			Five months ended 31 May
	2011	2012	2013	2014
Return on equity (%)	19.8	17.2	17.1	N/A
Return on assets (%)	7.1	6.2	8.0	N/A
Interest coverage	N/A	94.7	22.0	26.9

Gearing Ratio

Gearing ratio is calculated by dividing total debt by total equity as at the end of each reporting period and total debt is the sum of other payables and accruals, amounts due to related parties, interest-bearing bank borrowing and shareholders' loans which represent payables of our Group incurred not in the ordinary course of business.

Our Group's gearing ratio remained relatively stable at 1.3 as at 31 December 2011 and 2012. Our Group's gearing ratio decreased to approximately 0.7 as at 31 December 2013 from approximately 1.3 as at 31 December 2012 mainly due to the settlement of amounts due to related parties. Our Group's gearing ratio decreased to 0.1 as at 31 May 2014 mainly due to (i) the full settlement of the amounts due to related parties, (ii) the full settlement of the shareholders' loans of HK\$7.0 million, and (iii) the decrease in our other payables and accruals by approximately HK\$36.5 million mainly attributable to the settlement of the amounts due to a non-controlling equity holder of Haian Hengfa.

Return on Equity

For each of the three years ended 31 December 2013, return on equity is calculated by dividing the profit for the year attributable to owners of the parent by equity attributable to owners of the parent as at the end of each reporting period and expressed as a percentage.

The return on equity of our Group decreased from approximately 19.8% for the year ended 31 December 2011 to approximately 17.2% for the year ended 31 December 2012. This was mainly due to the combined effect of (i) the slight increase of approximately 6.3% in our Group's profit attributable to owners of the parent for the year ended 31 December 2012 as compared with our Group's profit attributable to owners of the parent for the year ended 31 December 2011 for reasons discussed in the paragraph headed "Review of Historical Operational Results — Profit" in this section, and (ii) the increase of approximately 22.4% in total equity attributable to owners of the parent to approximately HK\$148.6 million as at 31 December 2012 from approximately HK\$121.4 million as at 31 December 2011 mainly due to the profit generated by our Group during the year.

FINANCIAL INFORMATION

The return on equity of our Group decreased marginally from approximately 17.2% for the year ended 31 December 2012 to approximately 17.1% for the year ended 31 December 2013. This was mainly due to the increase in total equity attributable to owners of the parent as a result of the profit generated by our Group during the year, which was mostly offset by the increase of approximately 26.6% in our Group's profit attributable to owners of the parent for reasons affecting our profit as discussed in the paragraph headed "Review of Historical Operational Results — Profit" in this section.

Return on Assets

For each of the three years ended 31 December 2013, return on assets is calculated by dividing the profit for the year by total assets as at the end of each reporting period and expressed as a percentage.

The return on assets of our Group decreased from approximately 7.1% for the year ended 31 December 2011 to approximately 6.2% for the year ended 31 December 2012. This was mainly due to the combined effect of (i) the increase in our Group's profit for the year ended 31 December 2012 by approximately 5.8% as compared with the year ended 31 December 2011 for reasons discussed in the paragraph headed "Review of Historical Operational Results — Profit" in this section, and (ii) the increase in our total assets of approximately 19.8% from approximately HK\$362.2 million as at 31 December 2011 to approximately HK\$434.0 million as at 31 December 2012 mainly due to the profit generated by us during the year, the increase in amounts due from related parties due to the allocation of funds among our Shareholders and the private group of companies controlled by our Shareholders as well as the borrowing from bank of approximately HK\$24.9 million as discussed in the paragraph headed "Indebtedness — Loans and Borrowings" in this section.

The return on assets of our Group increased from approximately 6.2% for the year ended 31 December 2012 to approximately 8.0% for the year ended 31 December 2013. This was mainly due to the combined effect of (i) the increased profit for the year ended 31 December 2013 by approximately 25.4% as compared with the year ended 31 December 2012 for reasons discussed in the paragraph headed "Review of Historical Operational Results — Profit" in this section, (ii) the decrease in our total assets as at 31 December 2013 as a result of the settlement of amounts due from related parties, (iii) the decrease in prepayments and other receivables for reasons discussed in the paragraph headed "Certain Selected Statements of Financial Position Line Items — Prepayment and Other Receivables" in this section, and (iv) the consolidation of assets of Greatcorp as a result of the acquisition in February 2013.

Current Ratio and Quick Ratio

Current ratio is calculated by dividing current assets by current liabilities as at the end of each reporting period.

The current ratio increased from approximately 1.2 as at 31 December 2011 to approximately 1.4 as at 31 December 2012. This increase was primarily attributable to (i) the increase in the current portion of receivables under service concession arrangements of approximately HK\$10.8 million as discussed in the paragraph headed "Certain Selected Statements of Financial Position Line Items — Receivables under Service Concession Arrangements" in this section, (ii) the increase in prepayments

FINANCIAL INFORMATION

and other receivables mainly due to an advance to Rugao Infrastructure Investment Company of approximately HK\$24.9 million during the year for reasons discussed in the paragraph headed “Certain Selected Statements of Financial Position Line Items — Prepayment and Other Receivables” in this section, (iii) the increase in amounts due from related companies of approximately HK\$20.0 million due to the allocation of funds among our Shareholders and the private group of companies controlled by our Shareholders, and (iv) the increase in cash and cash equivalents of approximately HK\$15.4 million mainly due to cash receipt of the revenue generated that year. These amounts were partially offset by (i) the increase in amounts due to related parties of approximately HK\$15.2 million due to the allocation of funds among our Shareholders and the private group of companies controlled by our Shareholders, and (ii) the increase in our interest bearing bank borrowing of approximately HK\$24.9 million as discussed in the paragraph headed “Indebtedness — Loans and Borrowings” in this section.

The current ratio further increased from approximately 1.4 as at 31 December 2012 to approximately 1.6 as at 31 December 2013. This increase was primarily attributable to the increase in the net working capital of our Group during the year ended 31 December 2013, which was primarily attributable to (i) the increase in the current portion of receivables under service concession arrangements of approximately HK\$10.4 million as discussed in the paragraph headed “Certain Selected Statements of Financial Position Line Items — Receivables under Service Concession Arrangements” in this section, (ii) the increase in cash and cash equivalents of approximately HK\$46.0 million mainly due to cash receipt of the revenue generated that year, and (iii) a decrease in amounts due to related parties of approximately HK\$81.2 million due to the settlement of balances with related companies. These amounts were partially offset by (i) a decrease in prepayments and other receivables of approximately HK\$45.0 million mainly due to the settlement of the advance to Rugao Infrastructure Investment Company as well as the advances to acquaintances of our Shareholders which are Independent Third Parties, and (ii) a decrease in amounts due from related parties of approximately HK\$102.6 million due to the settlement of balances with related parties.

The current ratio increased from approximately 1.6 as at 31 December 2013 to approximately 2.6 as at 31 May 2014. This increase was primarily attributable to (i) the decrease in other payables and accruals of approximately HK\$36.5 million mainly due to the settlement of amounts due to a non-controlling equity holder of Haian Hengfa, (ii) the full settlement of the amounts due to related parties of approximately HK\$9.0 million, and (iii) the decrease in our interest-bearing bank borrowing of approximately HK\$3.9 million. These amounts were partially offset by (i) a decrease in receivables under service concession arrangements and bills receivable of approximately HK\$22.6 million due to the payment of wastewater treatment tariff by our customers, and (ii) a decrease in cash and cash equivalents of approximately HK\$37.6 million mainly due to the settlement of amounts due to a non-controlling equity holder and related parties.

Quick ratio is calculated by dividing current assets less inventories by current liabilities as at the end of each reporting period.

The quick ratio of our Group increased from approximately 1.2 as at 31 December 2011 to approximately 1.4 as at 31 December 2012, further increased to 1.6 as at 31 December 2013 as well as increasing to 2.6 as at 31 May 2014. Given that the inventory balance of our Group is relatively immaterial, the fluctuation of the quick ratio during the Track Record Period was primarily attributable to the reasons affecting the current ratio as discussed above.

FINANCIAL INFORMATION

Interest Coverage

Interest coverage is calculated by dividing profit before adjusted finance cost and tax by the adjusted finance costs for each reporting period.

The finance costs of our Group comprised of interest on bank loans and the discounted amounts of provision for major overhauls. For the purpose of calculating interest coverage, the discounted amounts of provision for major overhauls are excluded from finance costs to determine the adjusted finance cost as such amounts relate to accounting treatment rather than interest-bearing loans.

Our Group did not have any interest-bearing loans for the year ended 31 December 2011 and consequently interest coverage is not applicable for that year. Our Group's interest coverage was approximately 94.7 for the year ended 31 December 2012 as we obtained a loan for a principal amount of approximately HK\$24.9 million in October 2012, which caused us to incur interest expenses of approximately HK\$0.4 million that year.

Our Group's interest coverage decreased to approximately 22.0 for the year ended 31 December 2013, despite the increase in our interest expenses from approximately HK\$0.4 million for the year ended 31 December 2012 to HK\$2.3 million for the year ended 31 December 2013. This increase in interest expenses was partially offset by an increase in our profit before tax of approximately 41.1%, from approximately HK\$34.0 million for the year ended 31 December 2012 to approximately HK\$48.0 million for the year ended 31 December 2013.

Our Group's interest coverage increased to approximately 26.9 for the five months ended 31 May 2014 from approximately 22.0 for the year ended 31 December 2013 mainly due to the decrease in our interest expenses of approximately HK\$2.1 million. This decrease in interest expenses was partially offset by the decrease in our profit due to (i) the substantial increase in our administrative expenses due to the professional fees incurred in connection with the Listing, and (ii) the increase in our cost of sales resulting from the upgrade works to the Haian Hengfa Facility and the improvement works to the Rugao Hengfa Facility respectively.

FINANCIAL INFORMATION

SENSITIVITY ANALYSIS

Operating Costs

The following table sets forth the sensitivity analysis of hypothetical fluctuations in the major operating costs of our wastewater treatment operations, namely electricity and direct labour costs, and its effect on our Group's profit before tax and profit for each reporting period during the Track Record Period. The sensitivity analysis is performed with reference to the historical changes in assumptions regarding the electricity and direct labour expenses with all other assumptions held constant.

		Year ended 31 December						For the five months ended 31 May	
		2011		2012		2013		2014	
		(Decrease)/	(Decrease)/	(Decrease)/	(Decrease)/	(Decrease)/	(Decrease)/	(Decrease)/	(Decrease)/
		increase in	increase in	increase in	increase in	increase in	increase in	increase in	increase in
	in	profit	profit for	profit	profit for	profit	profit for	profit	profit for
	percentage	before tax	the year	before tax	the year	before tax	the year	before tax	the period
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Electricity expenses	5.4%	(198.1)	(152.8)	(218.2)	(168.9)	(279.6)	(198.4)	(147.4)	(110.6)
	(5.4)%	198.1	152.8	218.2	168.9	279.6	198.4	147.4	110.6
Direct labour expenses	16.9%	(394.6)	(304.1)	(429.1)	(330.5)	(501.6)	(360.4)	(232.8)	(174.6)
	(16.9)%	394.6	304.1	429.1	330.5	501.6	360.4	232.8	174.6

Electricity expenses

Our electricity expenses amounted to approximately HK\$3.7 million, HK\$4.1 million, HK\$5.2 million and HK\$2.7 million for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2014, respectively, representing approximately 35.1%, 39.2%, 33.0% and 20.5% of our Group's cost of sales for the corresponding reporting periods.

The above sensitivity analysis illustrates the impact of hypothetical fluctuations in electricity costs on our Group's profit before tax and profit for each reporting period during the Track Record Period. A change of 5.4% was adopted for each of the years ended 31 December 2011, 2012, 2013 and for the five months ended 31 May 2014 in the above sensitivity analysis as the maximum increase in the unit cost of electricity incurred by our Group was approximately 5.4% during the Track Record Period.

Direct labour expenses

Our direct labour expenses amounted to approximately HK\$2.3 million, HK\$2.5 million, HK\$3.0 million and HK\$1.4 million for the years ended 31 December 2011, 2012 and 2013 and for the five months ended 31 May 2014, respectively, representing approximately 22.2%, 24.6%, 18.8% and 10.3% of our Group's cost of sales for the corresponding reporting periods.

FINANCIAL INFORMATION

The above sensitivity analysis illustrates the impact of hypothetical fluctuations in direct labour expenses on our Group's profit before tax and profit for each reporting period during the Track Record Period. A change of 16.9% was adopted for each of the years ended 31 December 2011, 2012, 2013 and for the five months ended 31 May 2014 in the above sensitivity analysis as the maximum annual increase in direct labour expenses incurred by our Group during the Track Record Period was approximately 16.9%.

Construction Margin

The following table sets forth the sensitivity analysis of hypothetical changes in the construction margin, and their effect on our Group's revenue for the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014.

	Year ended 31 December						Five months ended 31 May	
	2011		2012		2013		2014	
	Increase / (decrease) in construction margin	Increase / (decrease) in revenue	Increase / (decrease) in revenue	Increase / (decrease) in revenue	Increase / (decrease) in revenue	Increase / (decrease) in revenue	Increase / (decrease) in revenue	Increase / (decrease) in revenue
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
+5.0%.....	(19.0)	(0.04)	(20.0)	(0.04)	(75.0)	(0.12)	184.0	0.52
+1.0%.....	(4.0)	(0.01)	(4.0)	(0.01)	(15.0)	(0.02)	37.0	0.05
-1.0%	4.0	0.01	4.0	0.01	15.0	0.02	(37.0)	(0.05)
-5.0%	19.0	0.04	20.0	0.04	75.0	0.12	(184.0)	(0.52)

Our revenue amounted to approximately HK\$44.6 million, HK\$46.9 million, HK\$65.1 million and HK\$35.5 million for the years ended 31 December 2011, 2012, 2013 and for the five months ended 31 May 2014, respectively. The above sensitivity analysis illustrates the impact of hypothetical fluctuations in the construction margin on our Group's revenue for each reporting period during the Track Record Period. A change of 1.0% or 5.0% was adopted for each of the years ended 31 December 2011, 2012, 2013 and for the five months ended 31 May 2014 in the above sensitivity analysis for illustrative purpose.

ACQUISITION OF GREATCORP

Greatcorp, an investment holding company incorporated in Hong Kong on 10 February 2010, became an indirect wholly-owned subsidiary of our Company as a result of the Reorganisation on 15 February 2013. Please refer to the section headed "History, Reorganisation and Corporate Structure — Our Subsidiaries and Their Principal Business Activities — Greatcorp and Grand Target" in this prospectus for details.

The financial information of Greatcorp and its subsidiary, Rugao Honghao for the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013 are set out in Note 38 to the Accountants' Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

LISTING EXPENSES

According to HKAS 32 *Financial Instruments: Presentation*, expenses that are directly attributable to the issue of new shares are accounted for as a deduction from equity and the expenses which do not relate to the issue of new shares are recognised in the consolidated statements of comprehensive income as incurred. Expenses that relate jointly to the issue of new shares and the listing of existing shares are allocated between these activities based on the proportion of number of new shares issued relative to the total number of shares in issue and listed on the Stock Exchange. For the years ended 31 December 2011 and 2012, we did not record any listing expenses. The estimated total listing expenses to be borne by our Group, which is non-recurrent in nature, is estimated to be approximately HK\$32.1 million (assuming an Offer Price of HK\$0.5 per Offer Share, being the mid-point of the indicative Offer Price range), of which approximately HK\$10.5 million is directly attributable to the issue of the Offer Shares to the public and is to be accounted for as a deduction from equity. The remaining HK\$21.6 million is expected to be charged to our consolidated statement of comprehensive income.

Approximately HK\$1.6 million and HK\$16.3 million of the listing expenses was charged as administrative expenses on our consolidated statement of comprehensive income for the year ended 31 December 2013 and for the seven months ended 31 July 2014 respectively. The remaining HK\$3.7 million is expected to be charged to our consolidated statement of comprehensive income for the period beginning 1 August 2014 and ending 31 December 2014. Accordingly, approximately HK\$20.0 million of listing expenses is expected to be charged to our consolidated statement of comprehensive income as administrative expenses for the year ending 31 December 2014. Such estimated increase in administrative expenses will materially affect the net profit and the net profit margin for the year ending 31 December 2014. Together with the aforementioned impact on our equity, the listing expenses is expected to result in material adverse changes in the financial or trading position or prospect of our Group since 31 May 2014, being the date on which the latest audited financial statements of our Group were prepared. It should be noted that the listing expenses are current estimate for reference only. The Public Offer Underwriting Agreement entered into among our Company, our Controlling Shareholders, the Sponsor, the Sole Global Coordinator and the Public Offer Underwriters does not provide for any discretionary incentive fees. Further, our Company does not intend to exercise our discretion to pay any incentive fees to any professional parties involved in the Share Offer, whether any clause to the same effect is included in the engagement letters entered into among our Company and the professional parties or not. The actual amount to be recognised in our consolidated financial statements for the year ending 31 December 2014 is subject to the terms of the Placing Underwriting Agreement and any adjustments based on the audit and changes in variables and assumptions.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

Save for amounts due from related parties, our Directors confirm that during the Track Record Period, the terms of the related party transactions (including recurring and non-recurring transactions) were conducted based on normal commercial terms and were no less favorable to us than terms available to or from Independent Third Parties.

The amounts due to and from related parties were non-trade in nature, unsecured, interest-free and repayable on demand. These balances represented the allocation of funds among our Shareholders and the private group of companies controlled by our Shareholders prior to the Listing. The outstanding balances as at 31 December 2013 have been fully settled.

As both the amounts due to and from related parties were interest free, there was no interest income or interest expenses arising from the amounts due to and from related parties during the Track Record Period. Having considered that there was no impact on the consolidated statements of comprehensive income arising from the amounts due to and from related parties during the Track Record Period, our Directors are of the view that the aforesaid related party transactions did not distort our financial results during the Track Record Period or cause our Track Record Period results to be unreflective of our future performance.

MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, including the following:

Commodities Risk

We are exposed to fluctuations in the prices of raw materials used in constructing our wastewater treatment facilities, such as steel, aluminum and copper, other base metal and cements as well as the raw materials we use in our wastewater treatment operations such as sodium hydroxide, sodium sulphide, sodium hydrogen sulphite, ferrous sulphate, polyaluminum chloride, polyacrylamide, sulphuric acid and chlorine. We currently do not hedge against commodities risk, which our Directors believe is in line with the PRC wastewater treatment services industry practice. We purchase most of our raw materials at market prices and such purchase costs are generally accounted for as part of the cost of sales. Accordingly, rising prices of raw materials, to the extent that we cannot pass on such increases to our customers, could adversely affect our financial performance. Please refer to the section headed “Risk Factors — Risks Relating to our Business — We are dependent on third parties for the supply of raw materials and services for repair and maintenance” in this prospectus for details.

Interest Rate Risk

We are exposed to interest rate risk, primarily relating to our long-term borrowings. Our long-term borrowing as at 31 December 2013 was linked to the US dollar prime rate. Upward fluctuations in the US dollar prime rate may increase the cost of our financing and adversely affect our revenue and profits. Fluctuations in the lending rate can also lead to significant fluctuations in the

FINANCIAL INFORMATION

fair values of our debt obligations. The US dollar prime rate has remained constant at 3.25% as at 31 December 2011, 2012, 2013 and 31 May 2014, respectively. We currently do not use any derivative instruments to hedge our interest rate risk. Please refer to Note 36 to the Accountants' Report included in Appendix I to this prospectus for details.

Credit Risk

We are exposed to credit risks primarily arising from receivables under service concession arrangements. We monitor our exposure to these credit risks on an on-going basis. Revenue relates to the construction and operation services under BOT arrangements is recognised as receivables under services concession arrangements. Generally, we agree with our customers in writing each month the volume of wastewater we treated during that month and accordingly the amount of wastewater treatment fees to bill them. We bill our customers shortly after the end of each month and allow them a credit period of up to 10 days after the end of each month to settle our bills as prescribed in our BOT agreements.

During the Track Record Period, payment periods of our customers are usually longer than our credit period granted to them. We had in the Track Record Period allowed our customers to settle their receivables after the relevant due date, taking into account the following factors (i) their historical payment track record, (ii) they are a local government authority and a local government administrative committee with complex internal administrative procedures for bill payments, (iii) our strategy to cultivate and maintain a long-term relationship with such customers by allowing some flexibility in the timing of our receipt of their receivables, and (iv) the fact that there had been no material adverse financial impact on us for extending their credit period.

We review the recoverable amount of each individual receivable under service concession arrangement at the end of the reporting period to assess whether any impairment losses should be made to reduce our credit risk. We also periodically review the payment status of our other receivables and take appropriate measures to collect overdue receivables. We did not experience any payment default from our customers and no provision for impairment losses in respect of receivables under service concession arrangements was recorded at the end of each reporting period during the Track Record Period as we were satisfied with the recoverability of these receivables. As at the Latest Practicable Date, our billed receivables under the service concession arrangements as at 31 December 2013 had already been fully settled and 37.1% of our billed receivables under the service concession arrangement as at 31 May 2014 had been settled. Accordingly, our Directors are of the view that the credit risk of our Group is not significant. For details regarding our assessment on the recoverability of our receivables, please refer the paragraph headed "Certain Selected Statements of Financial Position Line Items — Receivables under Service Concession Arrangements" in this section.

Foreign Exchange Risk

Our functional currency is Renminbi as our principal subsidiaries mainly carry out transactions in Renminbi. However, our consolidated financial information is presented in Hong Kong dollars. Any appreciation or depreciation of Hong Kong dollar against Renminbi will affect our financial position and be reflected in the exchange reserve.

FINANCIAL INFORMATION

In addition, conversion of Renminbi to foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. On 21 July 2005, the PRC government changed its policy of pegging the value of Renminbi to U.S. dollar. Under this policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates.

Depreciation of the Renminbi would adversely affect the value of any dividends we pay to our shareholders outside China. Appreciation of the Renminbi, however, would adversely affect the value of the proceeds we will receive from the Share Offer or any capital contribution in foreign currency if they are not converted to Renminbi in a timely manner. Historically, we had not used any financial instruments to hedge against foreign exchange risks.

Inflation

During the last month of 2011, 2012 and 2013, the year-on-year inflation rate in China as measured by the consumer price index was 5.4%, 2.6% and 2.6%, respectively, according to the National Bureau of Statistics of China. We have not been materially and adversely affected by these inflationary pressures. However, if the consumer price index continues to rise and if we are not able to increase the prices of our wastewater treatment services, our financial condition could be materially and adversely affected.

DIVIDEND DISTRIBUTION PRIOR TO THE LISTING

On 5 September 2014, we declared HK\$30.0 million of dividends to our then existing Shareholders, all of which is expected to be paid in cash prior to Listing. The payment of the aforesaid dividend will be funded wholly by our internal resources, including primarily dividends received from our subsidiaries.

DIVIDEND POLICY

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

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

FINANCIAL INFORMATION

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

For more details regarding the restrictions on the payment of dividends by our PRC subsidiaries and taxes payable on dividends, please refer to the sections headed “Risk Factors — Risks Relating to Business Operations in China — Depreciation in the value of Renminbi may materially and adversely affect the value of dividends and other distributions by our PRC subsidiaries” and “Risk Factors — Risks Relating to the Share Offer — We may be unable to pay any dividend on the Shares” in this prospectus.

DISTRIBUTABLE RESERVES

Under the Companies Law, we may pay dividends out of our profit or our share premium account in accordance with the provisions of our Articles of Association, provided that immediately following the date on which the dividend is proposed to be paid, we remain able to pay our debts as and when they fall due in the ordinary course of business. Our Company was incorporated on 25 February 2014 and there was no distributable reserve as at 31 December 2011, 2012 and 2013, respectively. As at 31 May 2014, our Company’s distributable reserve was HK\$113,720,000.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following information relating to our unaudited pro forma adjusted net tangible assets is for illustration purposes only, and is set out below to illustrate the effect of the Share Offer on our net tangible assets as at 31 May 2014 as if it had been taken place on 31 May 2014.

Because the following data is for illustration purposes, it may not give a true picture of our net tangible assets following the Share Offer. It is based on the consolidated net tangible assets of our Group attributable to owners of our Company as at 31 May 2014 as shown in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Consolidated net tangible assets attributable to owners of our Company as at 31 May 2014 ⁽¹⁾	Estimated net proceeds from the Share Offer ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share ^(3 and 4)
	HK\$'000	HK\$'000	HK\$'000	HK\$
Based on an Offer Price of HK\$0.4 per Share.....	<u>262,721</u>	<u>61,890</u>	<u>324,611</u>	<u>0.406</u>
Based on an Offer Price of HK\$0.6 per Share.....	<u>262,721</u>	<u>100,490</u>	<u>363,211</u>	<u>0.454</u>

Notes:

- (1) The consolidated net tangible assets attributable to owners of our Company as at 31 May 2014 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.4 and HK\$0.6 per Share, after deduction of the underwriting fees and other estimated expenses payable by our Group in connection with the Share Offer.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 800,000,000 Shares expected to be in issue immediately following the completion of the Share Offer without taking into account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares or which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme.
- (4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account a special dividend of HK\$30.0 million declared on 5 September 2014 by our Company. Such dividend is expected to be paid before the Listing. Had the special dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$0.368 (assuming an Offer Price of HK\$0.4 per Share) and HK\$0.417 (assuming an Offer Price of HK\$0.6 per Share), respectively.
- (5) Except from those mentioned above, no adjustment has been made to our unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 31 May 2014.

FINANCIAL INFORMATION

MATERIAL ADVERSE CHANGES

Taking into account (i) the fact that the listing expenses is expected to be incurred as disclosed in the paragraph headed “Listing Expenses” in this section, (ii) that our staff salaries and benefits (including remuneration of Directors and senior management) for the year ending 31 December 2014 are expected to increase mainly due to hiring of new staff in the Hong Kong office, increase in staff basic salaries, bonuses and employee benefits and payment of director fees to our Directors, and (iii) the recognition of construction revenue and costs for the upgrade and improvement works of the Haian Hengfa Facility and the Rugao Hengfa Facility, respectively, in the year ending 31 December 2014, our overall gross profit margin and net profit margin for the year ending 31 December 2014 are expected to be adversely affected.

The impact of the listing expenses on our consolidated statement of comprehensive income and equity, together with the financial impact of the expected increase in cost of sales and administrative expenses, and the expected decrease in our gross profit margin, net profit and net profit margin, have resulted in material adverse changes in the financial or trading position or prospect of our Group since 31 May 2014, being the date to which the latest audited financial statements of our Group were prepared.

In light of abovementioned material adverse changes, we expect to issue a profit warning as soon as practicable after Listing.

Our Directors are of the opinion that there is no fundamental deterioration in the commercial and operational viability in our business despite the expected increase in administrative expenses and our salaries and benefits (including remuneration of Directors and senior management) for the year ending 31 December 2014.

Save as disclosed above, our Directors confirm that up to the Latest Practicable Date, there had been no material adverse change in our financial or trading position or prospect since 31 May 2014, being the date to which our latest audited financial information was prepared and there had been no event since 31 May 2014 up to the Latest Practicable Date which would materially affect the information shown in the Accountants’ Report.

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at Latest Practicable Date, we are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For a detailed description of our future plans, please refer to the section headed “Business — Business Strategies” in this prospectus.

USE OF PROCEEDS

We estimate that the aggregate net proceeds payable to us from the Share Offer, after deducting underwriting fees and commissions and estimated expenses payable by us in connection with the Share Offer, will be approximately HK\$67.9 million assuming an Offer Price of HK\$0.5 (being the mid-point of the Offer Price range stated in this prospectus). We currently intend to apply these net proceeds in the following manner:

- approximately 9.7%, or approximately HK\$6.6 million, of the net proceeds to be used for the capital expenditure for the upgrade works of the Haian Hengfa Facility in order to meet the higher discharge and operation standards promulgated in 2013. Such enhancement and improvement works commenced in March 2014 and are expected to be completed by September 2014. The majority of this portion of proceeds is expected to be utilised within twelve months from the date of Listing, while the remaining portion is expected to be utilised within three years from the date of Listing. For details relating to the governmental policies requiring the higher discharge and operation standards and our plans to upgrade our wastewater treatment facilities, please refer to the sections headed “Regulation Overview — Water Quality” and “Business — Project Financing” in this prospectus;
- approximately 71.1%, or approximately HK\$48.3 million, of the net proceeds to be used for the capital expenditure for the upgrade works of the Rugao Hengfa Facility in order to meet the higher discharge and operation standards promulgated in 2013. Such enhancement and improvement works are expected to commence in September 2014 and be completed by December 2014. The majority of this portion of proceeds is expected to be utilised within twelve months from the date of Listing, while the remaining portion is expected to be utilised within three years from the date of Listing. For details relating to the governmental policies requiring the higher discharge and operation standards and our plans to upgrade our wastewater treatment facilities, please refer to the sections headed “Regulation Overview — Water Quality” and “Business — Project Financing” in this prospectus;
- approximately 15.9%, or approximately HK\$10.8 million, of the net proceeds to be used for making potential investment into new wastewater treatment or other environmental protection projects in and outside China. We will take into account key factors such as profitability, growth potential, technical requirements and our experience and expertise of project execution when selecting potential projects in order to ensure they are in the best interest of our Shareholders. As at the Latest Practicable Date, we had not identified any targets for such investment or acquisition. Our Directors intend to utilise this portion of the proceeds within three years from the date of Listing; and

FUTURE PLANS AND USE OF PROCEEDS

- approximately 3.3%, or approximately HK\$2.2 million, of the net proceeds to be used for capital and general corporate purposes, including administration expenses. Our Directors intend to utilise this portion of the proceeds within three years from the date of Listing.

If the Offer Price is finally determined at HK\$0.6, being the high-end of the indicative Offer Price range, our net proceeds will be increased by approximately HK\$19.3 million. In such event, our Directors currently intend to apply such additional net proceeds for the above purposes on a pro-rata basis.

If the Offer Price is finally determined at HK\$0.4, being the low-end of the indicative Offer Price range, our net proceeds will instead be decreased by approximately HK\$19.3 million. In such event, our Directors currently intend to reduce our use of proceeds for the above purposes on a pro-rata basis.

To the extent that the net proceeds to us from the Share Offer are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

Sole Global Coordinator

Quam Securities Company Limited

Joint Bookrunners and Joint Lead Managers

Quam Securities Company Limited
Convoy Investment Services Limited

Co-lead Manager

Yicko Securities Limited

Co-Managers

Brilliant Norton Securities Company Limited
SBI China Capital Financial Services Limited
Kingsway Financial Services Group Limited
Great Roc Capital Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting arrangements

The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is expected to be fully underwritten by the Placing Underwriters on a several basis and subject to the Price Determination Agreement. The Public Offer Underwriting Agreement was entered into on 11 September 2014 and in connection with the Placing, we expect to enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters. The Public Offer Underwriting Agreement is conditional upon, among other things, the Placing Underwriting Agreement being entered into, and each of the Underwriting Agreements is expected to be inter-conditional.

Public Offer Underwriting Agreement

Under the Public Offer Underwriting Agreement, we have agreed to offer the Public Offer Shares to the public in Hong Kong for subscription on and subject to the terms and conditions of this prospectus and the Application Forms. Pursuant to the Public Offer Underwriting Agreement, and conditional upon, among other things, the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (subject only to allotment and/or despatch of Share certificates for the Offer Shares and such other usual conditions for transaction of this nature) and certain other conditions including the entering into of the Placing Underwriting Agreement and the Price Determination Agreement on or before the Price

UNDERWRITING

Determination Date, the Public Offer Underwriters have agreed to subscribe for, or procure subscribers to subscribe for, the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of the Public Offer Underwriting Agreement, this prospectus and the Application Forms.

Grounds for termination of the Public Offer Underwriting Agreement

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. The Sponsor or the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) shall have the right, in its sole and absolute discretion, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement if it sees fit upon the occurrence of any of the following events by notice in writing to our Company with immediate effect at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there has come to the notice of the Sponsor or the Sole Global Coordinator that:
 - (i) any statement contained in any of this prospectus, the Application Forms or any other relevant documents used in connection with the Share Offer (the “**Offer Documents**”) considered by the Sponsor or the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) to be material in the context of the Share Offer, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole;
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sponsor or the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) to be material in the context of the Public Offer;
 - (iii) any of the representations and warranties given by our Company in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Sponsor or the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) to be material in the context of the Public Offer;
 - (iv) any breach of any of the obligations or undertakings imposed upon any party (other than the Sponsor, the Sole Global Coordinator or any of the Underwriters) to any of the Underwriting Agreements considered by the Sponsor or the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) to be material in the context of the Public Offer;

UNDERWRITING

- (v) any adverse change or prospective adverse change in the condition, business, assets and liabilities, properties, results of operations, in the financial or trading position or prospect of any member of our Group considered by the Sponsor or the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) to be material in the context of the Public Offer;
 - (vi) approval by the Listing Committee of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
 - (vii) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Share Offer;
 - (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of our Group pursuant to the indemnities given by our Company; or
 - (ix) any person (other than the Sponsor, the Sole Global Coordinator and any of the Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdom, Canada, the European Union (or any major member thereof), Japan, Singapore or any other relevant jurisdiction (collectively the “**Relevant Jurisdictions**” and each a “**Relevant Jurisdiction**”);
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction;
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, large-scale protests, fire, explosion, flooding, earthquake, tsunami, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease) in or affecting any of the Relevant Jurisdictions;

UNDERWRITING

- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions;
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, or (B) a general moratorium on commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions;
- (vi) any adverse change or development or event involving a prospective adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions;
- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions;
- (viii) any adverse change or development or event involving a prospective adverse change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects;
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action;
- (x) other than with the prior written consent of the Sponsor and the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplementary prospectus or offer document pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Sponsor or the Sole Global Coordinator, materially adverse to the marketing for or implementation of the Share Offer;
- (xi) a petition is presented for the winding up or liquidation of our Company or any of our subsidiaries, or our Company or any of our subsidiaries make any compromise or arrangement with the creditors our Group or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Group or anything analogous thereto occurs in respect of our Company or any of our subsidiaries;
- (xii) a valid demand by any creditor for repayment or payment of any of the indebtedness of our Group or in respect of which our Company or any of our subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by our Company or any of our subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or

UNDERWRITING

(xiii) any litigation or claim being threatened or instigated against our Company or any of our subsidiaries,

and which, in any of the above cases and in the sole and absolute opinion of the Sponsor or the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters):

- (1) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Company or our subsidiaries as a whole;
- (2) has or may have or will have or is likely to have a material adverse effect on the success of the Share Offer and/or make it impracticable or inadvisable for any part of the Underwriting Agreements, the Public Offer or the Share Offer to be performed or implemented as envisaged; or
- (3) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Public Offer or the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus.

Restrictions and undertakings under the Listing Rules

Concerning our Company

Under Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed under Rule 10.08 of the Listing Rules.

Concerning our Controlling Shareholders

Under Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which he/she/it is or they are shown by this prospectus to be the beneficial owner(s); or
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it or they would cease to be our Controlling Shareholder.

UNDERWRITING

Any offer for sale contained in this prospectus, if any, shall not be subject to the above restrictions.

As required under note 3 to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders have undertaken to our Company and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of their respective shareholdings is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it/they will:

- (a) when he/she/it/they pledge(s) or charge(s) any securities beneficially owned by him/her/it/them in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he/she/it/they receive(s) indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

Our Company shall inform the Stock Exchange as soon as we have been informed of the matters referred to above by our Controlling Shareholders and disclose such matters by way of an announcement as soon as possible.

Undertakings under the Public Offer Underwriting Agreement

By our Company

Our Company has undertaken irrevocably and unconditionally to each of the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) that, except pursuant to the Share Offer and any options which may be granted under the Share Option Scheme, our Company will not, and will procure that our subsidiaries will not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters), and unless in compliance with the requirements of the Listing Rules, at any time during the First Six-Month Period:

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, or repurchase any share of our Company or any of our subsidiaries or other securities convertible into or exercisable or exchangeable for, or which represent the right to receive, any such share or any interest therein;
- (b) enter into any swap or other arrangement which transfers to another, in whole or in part, any of the economic consequences of ownership of such share or securities or any interest therein;

UNDERWRITING

- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer or agree or contract to, or publicly announce any intention to enter into, any transaction specified in paragraph (a), (b) or (c) above,

whether any such transaction specified in paragraph (a), (b) or (c) above is to be settled by delivery of share or such other securities, in cash or otherwise, and in the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the Second Six-Month Period, our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for the Shares or other securities of our Company.

By our Controlling Shareholders

Each of our Controlling Shareholders has jointly and severally undertaken to each of the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) that, except pursuant to the Share Offer and any options which may be granted under the Share Option Scheme, he/she/it will not, and will procure that his/her/its close associates will not, without the prior written consent (which consent shall not be unreasonably withheld or delayed) of the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters), and unless in compliance with the Listing Rules:

- (a) at any time during the First Six-Month Period:
 - (i) offer, pledge, charge, sell, lend, mortgage, assign, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any share of our Company or any of our subsidiaries or other securities convertible into or exercisable or exchangeable for, or which represent the right to receive, any such shares or any interest therein, whether now owned directly or indirectly by any of our Controlling Shareholders (including holding as a custodian) or with respect to which any of our Controlling Shareholders has beneficial interest;
 - (ii) enter into any swap or other arrangement which transfers to another, in whole or in part, any of the economic consequences of ownership of any such share or securities or any interest therein;
 - (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above; or
 - (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction specified in sub-paragraph (i), (ii) or (iii) above,

UNDERWRITING

whether any such transaction specified in sub-paragraph (i), (ii) or (iii) above is to be settled by delivery of share or such other securities, in cash or otherwise; and

- (b) at any time during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above if, immediately following such transaction, he/she/it will cease to be our Controlling Shareholder or would together with the other Controlling Shareholders cease to be our Controlling Shareholders.

In addition, until the expiry of the Second Six-Month Period, in the event that any of our Controlling Shareholders enters into any of the transactions specified in paragraph (a) or (b) above or offers or agrees or contract to, or publicly announces any intention to enter into any such transactions, he/she/it will take all reasonable steps to ensure that he/she/it will not create a disorderly or false market in the shares or other securities of our Company.

Each of our Controlling Shareholders has further jointly and severally undertaken to the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) that he/she/it will, at any time before the expiry of the Second Six-Month Period:

- (a) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance) of any share or other securities of our Company or any interests therein in respect of which he/she/it is the beneficial owner, immediately inform the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) in writing of such pledge or charge together with the number of share or other securities so pledged or charged; and
- (b) upon any indication received by he/she/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged share or securities or interests in the share or other securities of our Company will be disposed of, immediately inform the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) in writing of such indications.

Further, each of our Controlling Shareholders will procure our Company to inform the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) as soon as our Company has been informed of the matters mentioned above and to make an announcement of such matters as soon as possible thereafter in accordance with the Listing Rules.

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company and our Controlling Shareholders will enter into the Placing Underwriting Agreement with, among others, the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Placing Underwriters) on or around the Price Determination Date. It is expected that under the Placing Underwriting Agreement, the Placing Underwriters will, subject to certain conditions set out therein, severally agree to subscribe or procure subscribers to subscribe for the Placing Shares initially being offered under the Placing (subject to re-allocation) on and subject to the terms of the Placing Underwriting Agreement. The Placing Underwriting Agreement is expected to contain force majeure clauses similar to those contained in the

UNDERWRITING

Public Offer Underwriting Agreement as mentioned above. In the event that the Placing Underwriting Agreement is not entered into on or around the Price Determination Date, or does not become unconditional or is terminated in accordance with its terms, the Share Offer will not proceed and will lapse.

Commissions and expenses

Pursuant to the terms of the Public Offer Underwriting Agreement, we have agreed to pay to the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) and, in the case of the Placing Underwriting Agreement, we will agree to pay to the Sole Global Coordinator (for itself and on behalf of the Placing Underwriters), an underwriting commission of 3% of the total Offer Price for the Offer Shares, out of which any sub-underwriting commissions will be paid.

The underwriting commissions, the Listing fees, the professional fees, the printing and other expenses relating to the Share Offer are estimated to be approximately HK\$32.1 million in aggregate (assuming an Offer Price of HK\$0.5, being the mid-point of the Offer Price range stated in this prospectus) and are payable by our Company.

UNDERWRITERS' INTERESTS IN US

Save for their respective obligations and interests under the Underwriting Agreements as disclosed above, none of the Underwriters has any interest in our Company or any member of our Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

ACTIVITIES BY SYNDICATE MEMBERS

Set out below is a variety of activities which the Public Offer Underwriters and the Placing Underwriters (together referred to as the “**Syndicate Members**”) may each individually undertake, and which do not form part of the underwriting or the stabilising process. It should be noted that when engaging in any these activities the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreements among the Syndicate Members, none of the Syndicate Members will, and each of the Syndicate Members will procure that none of its respective affiliates and agents will, in connection with the distribution of the Offer Shares, effect, cause or authorise any other person to effect any transactions including, but not limited to issuing options or derivatives on the underlying Shares (whether in the open market or otherwise and whether in Hong Kong or elsewhere) with a view to stabilising or maintaining the market price of any Shares at a level higher than that which might otherwise prevail in the open market or any action which is designed to or which constitutes or which might be expected to, cause or result in the stabilisation or manipulation, in violation of applicable laws, of the price of any securities of our Company; and

UNDERWRITING

- (b) none of the Syndicate Members will, during the period which begins on the Listing Date and ends on the 30th day after the last day for lodging applications under the Public Offer, issue any warrant, option or derivative on the underlying Shares (whether in the open market or otherwise), except with the prior written consent of the Sole Global Coordinator.

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 and 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 the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling 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 which may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the 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 of these activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares and their share price, and the extent to which this occurs from day to day cannot be estimated.

STRUCTURE OF THE SHARE OFFER

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date, which is currently scheduled on Friday, 19 September 2014, or such later date as our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) may agree but in any event no later than 6:00 p.m. (Hong Kong time) on Wednesday, 24 September 2014. If, for any reason, we and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Wednesday, 24 September 2014, the Share Offer will not become unconditional and will lapse.

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 Offer Price range as stated in this Prospectus. The Offer Price will not be more than HK\$0.6 per Offer Share and is expected to be not less than HK\$0.4 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with our consent, reduce the Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) the notice of such change. Upon issuing such notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out under the section headed “Summary” in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice of a reduction in the Offer Price range as stated in this prospectus being published on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

We expect to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 25 September 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at www.hkexnews.hk and our website at www.ellhk.com.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available through a variety of channels as described under the section headed “How to Apply for the Public Offer Shares — 8. Publication of Results” in this prospectus.

STRUCTURE OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.6 per Offer Share and is expected to be not less than HK\$0.4 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum price of HK\$0.6 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$3,030.24 per board lot of 5,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK\$0.6 per Offer Share, appropriate refund payments (including the related brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the excess application monies) will be made to applicants without interest.

Further details are set out under the section headed “How to Apply for the Public Offer Shares” in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon the satisfaction of all of the following conditions:

(a) **Listing**

The Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (and such listing and permission not being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

(b) **Underwriting Agreements**

The Placing Underwriting Agreement being entered into between, among others, our Company and the Sole Global Coordinator (for itself and on behalf of the Placing Underwriters), and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, among other things, the Offer Price being agreed by no later than the Price Determination Date and the Price Determination Agreement having been duly entered into, and if relevant, as a result of the waiver of any conditions given by the Sponsor or the Sole Global Coordinator (for itself and on behalf of the Underwriters)) and not being terminated in accordance with its terms or otherwise.

Details of the Public Offer Underwriting Agreement and grounds for termination are set out under the section headed “Underwriting” in this prospectus. If for any reason, the Placing Underwriting Agreement and the Price Determination Agreement are not entered into, the Share Offer will not proceed. If these conditions are not fulfilled on or before the time and date specified in the Underwriting Agreements or such later date as the Sole Global Coordinator (for itself and on behalf of the Underwriters) may in its absolute discretion determine, the Share Offer will lapse and your application money will be refunded to you, without interest, by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed “Refund of Your Money” in the relevant Application Forms.

STRUCTURE OF THE SHARE OFFER

In the meantime, your application money will be held in one or more separate bank account(s) with the receiving bank or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. A total of 200,000,000 Shares will initially be made available under the Share Offer, of which 180,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will be offered for subscription under the Placing. The remaining 20,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will be offered for subscription under the Public Offer. The number of Shares offered for subscription under the Public Offer and the Placing will be subject to re-allocation on the basis described below. No pre-emption right has been granted.

THE PUBLIC OFFER

We are initially offering, at the Offer Price, 20,000,000 Shares (subject to re-allocation as mentioned under the paragraph headed “Re-allocation of Offer Shares between the Public Offer and the Placing” under this section), representing 10% of the total number of Shares being initially offered under the Share Offer, for subscription under the Public Offer. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement. Applicants for the Public Offer Shares are required to pay the Offer Price plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% on application.

The Public Offer is open to all members of the public in Hong Kong. An applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form submitted by him/her/it that he/she/it has not applied for nor taken up any Placing Shares nor participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Public Offer is liable to be rejected.

The total number of Offer Shares available under the Public Offer is to be divided into two pools of 10,000,000 Public Offer Shares for each of pool A and pool B, respectively. For allocation purpose:

- (a) Pool A: the Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less; and
- (b) Pool B: the Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the value of pool B.

STRUCTURE OF THE SHARE OFFER

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is under-subscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of the Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Multiple applications or suspected multiple applications within either pool or between pools and any application made for more than 100% of the Public Offer Shares initially available under either pool A or pool B will be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer, both in relation to pool A or pool B, will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by each applicant. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. The results of allocations of the Public Offer (with successful applicants' identification document numbers, where appropriate) are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, 25 September 2014.

Applications under the Public Offer from investors receiving the Placing Shares under the Placing will be identified and rejected and investors receiving the Public Offer Shares under the Public Offer will not be offered the Placing Shares under the Placing. Multiple applications or suspected multiple applications or applications for more than 100% of the Public Offer Shares initially available in either pool A or pool B for public subscription under the Public Offer are liable to be rejected.

The Public Offer is subject to the conditions as stated under the paragraph headed "Conditions of the Share Offer" under this section.

THE PLACING

We are initially offering, at the Offer Price, 180,000,000 Shares (subject to re-allocation as mentioned under the paragraph headed "Re-allocation of Offer Shares between the Public Offer and the Placing" under this section), representing 90% of the total number of Shares being initially offered under the Share Offer, for subscription by way of the Placing. The Placing will be managed by the Sole Global Coordinator and is expected to be fully underwritten by the Placing Underwriters. Pursuant to the Placing, it is expected that the Placing Underwriters or any selling agents which they nominate will, on our behalf, conditionally place the Placing Shares at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. It is expected that the Placing Underwriting Agreement will be executed on or around the Price Determination Date.

STRUCTURE OF THE SHARE OFFER

Allocation of the Placing Shares to professional, institutional and private investors pursuant to the Placing will be 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 the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on the basis which would lead to the establishment of a solid and broad Shareholder base to the benefit of our Company and our Shareholders as a whole. Investors to whom the Placing Shares are offered are required to undertake not to apply for the Public Offer Shares under the Public Offer. The Placing is subject to the conditions stated under the paragraph headed "Conditions of the Share Offer" under this section.

RE-ALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of the Offer Shares between the Public Offer and the Placing is subject to re-allocation. If the number of Shares validly applied for under the Public Offer:

- (a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Public Offer, then the Offer Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 60,000,000 Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Share Offer;
- (b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Public Offer, then the Offer Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 80,000,000 Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Share Offer;
- (c) represents 100 times or more of the number of Shares initially available for subscription under the Public Offer, then the Offer Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 100,000,000 Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Share Offer; and
- (d) in each of the above cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

In all cases, the additional Offer Shares re-allocated to the Public Offer will be allocated, if applicable, equally between pool A and pool B.

If the Public Offer is not fully subscribed, the Sole Global Coordinator (for itself and on behalf of the Underwriters) has the absolute discretion to re-allocate any or all of the unsubscribed Public Offer Shares originally available under the Public Offer to the Placing in such number as it may deem appropriate to satisfy the demand under the Placing. If the Placing is not fully subscribed, the Sole Global Coordinator has the authority to re-allocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer in such number as it may deem appropriate provided that

STRUCTURE OF THE SHARE OFFER

there is sufficient demand under the Public Offer to take up such unsubscribed Placing Shares. Details of any re-allocation of the Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement, which is expected to be made by our Company on Thursday, 25 September 2014.

DEALING ARRANGEMENTS AND BOARD LOT SIZE

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. on Friday, 26 September 2014, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 26 September 2014. The Shares will be traded in board lots of 5,000 Shares. The stock code of the Shares is 1395.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may use a **WHITE** or **YELLOW** Application Form.

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.

We, the Sole Global Coordinator 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 the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States, and are not a United States Person (as defined in Regulation S under the Securities Act); and
- (d) 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 body corporate, the application form must be signed by a duly authorised 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 Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

- (a) are an existing beneficial owner of the Shares and/or any shares in our subsidiaries;
- (b) are a Director or chief executive officer of our Company and/or a director or chief executive officer of any of our subsidiaries;
- (c) are a close associate (as defined in the Listing Rules) of any of the above;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (d) are a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Share Offer; and
- (e) have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR THE PUBLIC OFFER SHARES

Which application channel to use

For the Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For the 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.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 12 September 2014 to 12:00 noon on Wednesday, 17 September 2014 from:

- (a) the following offices of the Public Offer Underwriters:

Quam Securities Company Limited	18th-19th Floors, China Building, 29 Queen's Road, Central, Hong Kong
Convoy Investment Services Limited	24C, @Convoy, 169 Electric Road, North Point, Hong Kong
Yicko Securities Limited	19th Floor, Tung Ning Building, 125-127 Connaught Road Central, Hong Kong
Brilliant Norton Securities Company Limited	Suite 804, 8th Floor, Jubilee Centre, 46 Gloucester Road, Wan Chai, Hong Kong
SBI China Capital Financial Services Limited	Unit A2, 32nd Floor, United Centre, 95 Queensway, Hong Kong
Kingsway Financial Services Group Limited	7th Floor, Tower 1, Lippo Centre, 89 Queensway, Hong Kong
Great Roc Capital Securities Limited	Suite 3712, 37th Floor, West Tower Shun Tak Center, 168-200 Connaught Road Central, Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(b) any of the following branches of Standard Chartered (Hong Kong) Limited:

District	Branch	Address
Hong Kong Island	Des Voeux Road branch	Standard Chartered Bank Building 4-4A, Des Voeux Road Central Central Hong Kong
	Wanchai Southorn branch	Shop C2 on Ground Floor and 1st Floor to 2nd Floor Lee Wing Building, No. 156-162 Hennessy Road Wanchai Hong Kong
	Quarry Bay branch	Ground Floor Westlands Gardens 1027 King's Road Quarry Bay Hong Kong
Kowloon	Tsimshatsui branch	Ground Floor 8A-10 Granville Road Tsimshatsui Hong Kong
	68 Nathan Road branch	Basement Shop B1, Ground Floor Golden Crown Court 66-70 Nathan Road Tsimshatsui Hong Kong
	Telford Gardens branch	Shop P9-12 Telford Centre Telford Gardens Tai Yip Street Kwun Tong Hong Kong
New Territories	Tsuen Wan branch	Shop C, Ground Floor and 1st Floor Jade Plaza 298 Sha Tsui Road Tsuen Wan Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

District	Branch	Address
	Metroplaza branch	Shop No. 175-176 Level 1 Metroplaza 223 Hing Fong Road Kwai Chung Hong Kong

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 12 September 2014 to 12:00 noon on Wednesday, 17 September 2014 from the depository counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road 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 Horsford Nominees Limited — ELL Environmental 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:

Friday, 12 September 2014, 9:00 a.m. to 5:00 p.m.
Saturday, 13 September 2014, 9:00 a.m. to 1:00 p.m.
Monday, 15 September 2014, 9:00 a.m. to 5:00 p.m.
Tuesday, 16 September 2014, 9:00 a.m. to 5:00 p.m.
Wednesday, 17 September 2014, 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 17 September 2014, the last application day or such later time as described under the paragraph headed "Effect of Bad Weather on the Opening of the Applications Lists" under 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:

- (a) undertake to execute all relevant documents and instruct and authorise us and/or the Sole Global Coordinator (or its agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (b) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- (c) 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;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (d) 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;
- (e) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (f) agree that none of us, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- (g) 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 Placing Shares nor participated in the Placing;
- (h) agree to disclose to us, the Hong Kong branch share registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of us, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers 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;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorise us to place your name(s) or the name of the HKSCC Nominees, on our register of members as the holder(s) of any Public Offer Shares allocated to you, and us and/or our

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 the refund cheque(s) in person;

- (p) 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;
- (q) understand that we and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form by any one as your agent or by any other person; and
- (s) (if you are making the application as an agent for the benefit of another person) warrant 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; and
 - (ii) you have due authority to sign the Application Form 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. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the 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:

- (a) an account number; or
- (b) 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 is made for your benefit. If an application is made by an unlisted company and:

- (a) the principal business of that company is dealing in securities; and
- (b) 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 Stock Exchange.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

“Statutory control” means you:

- (a) control the composition of the board of directors of the company;
- (b) control more than half of the voting power of the company; or
- (c) 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).

6. HOW MUCH ARE THE 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 Stock Exchange trading fee in full upon application for the Public Offer 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 5,000 Public Offer Shares. Each application in respect of more than 5,000 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 Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Share Offer — Price Payable on Application” in this prospectus.

7. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 17 September 2014. Instead they will open between 9:00 a.m. and 12:00 noon on the next business day (as defined in the Listing Rules) 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 Wednesday, 17 September 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong which may affect the dates mentioned under the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

8. PUBLICATION OF RESULTS

We expect to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 25 September 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.ellhk.com**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- (a) in the announcement to be posted on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.ellhk.com** by no later than 9:00 a.m. on Thursday, 25 September 2014;
- (b) from the designated results of allocations website at **www.ewhiteform.com.hk/results** with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 25 September 2014 to the midnight on Wednesday, 1 October 2014;
- (c) by telephone enquiry line by calling (852) 2153 1688 between 9:00 a.m. and 6:00 p.m. from Thursday, 25 September 2014 to Tuesday, 30 September 2014 on a Business Day; and
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 25 September 2014 to Saturday, 27 September 2014 at all the receiving bank branches and sub-branches.

If we accept your offer to purchase (in whole or in part), which we 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 Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained under the section headed “Structure of the Share Offer” in this prospectus.

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.

9. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form, you agree that your application 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 us.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Your application 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 Hong Kong 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 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.

(b) If we or our agents exercise our discretion to reject your application:

We, the Sole Global Coordinator 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.

(c) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or
- (ii) within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing date of the application lists.

(d) If:

- (i) you make multiple applications or suspected multiple applications;
- (ii) 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) Public Offer Shares and Placing Shares;
- (iii) your Application Form is not completed in accordance with the stated instructions;
- (iv) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- (v) the Underwriting Agreements do not become unconditional or are terminated;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (vi) we or the Sole Global Coordinator believe that by accepting your application, we or it would violate applicable securities or other laws, rules or regulations; or
- (vii) your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

10. 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\$0.6 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the section headed “Structure of the Share Offer — Conditions of the Share Offer” 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 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 Thursday, 25 September 2014.

11. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms where the Share certificates will be deposited into CCASS as described below).

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:

- (a) Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed “Account payee only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the 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 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 cheque, if any. Your bank 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).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Thursday, 25 September 2014. 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 Friday, 26 September 2014 provided that the Share Offer has become unconditional and the right of termination described under the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade the Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

(a) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more 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 Boardroom Share Registrars (HK) Limited at 31st Floor, 148 Electric Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 25 September 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong branch 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 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 25 September 2014, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 25 September 2014, 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 Thursday, 25 September 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(i) If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

(ii) If you are applying as a CCASS Investor Participant

We will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described under the paragraph headed "8. Publication of Results" under this section. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 25 September 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System.

12. ADMISSION OF THE SHARES INTO CCASS

If the 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 Listing Rules) is required to take place in CCASS on the second business day (as defined in the Listing Rules) 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 adviser 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.

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



22nd Floor
CITIC Tower
1 Tim Mei Avenue,
Central
Hong Kong

12 September 2014

The Directors
ELL Environmental Holdings Limited

Quam Capital Limited

Dear Sirs,

We set out below our report on the financial information of ELL Environmental Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising 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 2011, 2012 and 2013, and the five months ended 31 May 2014 (the “Track Record Period”), and the consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 2013 and 31 May 2014, and the statement of financial position of the Company as at 31 May 2014, together with the notes thereto (the “Financial Information”), and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the five months ended 31 May 2013 (the “Interim Comparative Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 12 September 2014 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 February 2014. Pursuant to a group reorganisation (the “Reorganisation”) as described in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” to the Prospectus, the Company became the holding company of the subsidiaries comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Track Record Period are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Underlying Financial Statements for each of the years ended 31 December 2011, 2012 and 2013, and the five months ended 31 May 2014 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors’ responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquires of management and applying analytical procedures to the financial information and, bases thereon, assessing whether the accounting policies and presentation have been

consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2011, 2012 and 2013 and 31 May 2014, and of the Company as at 31 May 2014, and of the consolidated results and cash flows of the Group for each reporting period during the Track Record Period.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

(A) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

				Five months ended	
				31 May	

(B) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 May
	Notes	2011	2012	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment.....	16	934	1,261	2,520	2,403
Receivables under service concession arrangements	17	206,773	208,171	289,604	282,672
Total non-current assets		207,707	209,432	292,124	285,075
CURRENT ASSETS					
Inventories.....	18	130	124	349	416
Receivables under service concession arrangements and bills receivable	17	29,636	40,451	50,804	28,226
Prepayments and other receivables	19	27,324	51,201	6,238	4,620
Amounts due from related parties	23	83,197	103,155	542	—
Cash and cash equivalents.....	20	14,195	29,606	75,625	37,990
Total current assets		154,482	224,537	133,558	71,252
CURRENT LIABILITIES					
Trade payables	21	5,748	1,476	2,474	6,095
Other payables and accruals.....	22	42,299	45,593	43,003	6,522
Amounts due to related parties.....	23	74,998	90,207	8,965	—
Interest-bearing bank borrowing.....	24	—	24,878	17,550	13,650
Income tax payables.....		1,390	1,926	9,900	1,385
Total current liabilities.....		124,435	164,080	81,892	27,652
NET CURRENT ASSETS.....		30,047	60,457	51,666	43,600
TOTAL ASSETS LESS CURRENT LIABILITIES					
		237,754	269,889	343,790	328,675
NON-CURRENT LIABILITIES					
Shareholders' loans.....	23	71,099	71,099	89,329	—
Deferred tax liabilities	25	20,351	22,908	35,075	34,438
Provision for major overhauls	26	2,121	2,810	4,134	4,494
Total non-current liabilities.....		93,571	96,817	128,538	38,932
Net assets		144,183	173,072	215,252	289,743
EQUITY					
Equity attributable to owners of the parent					
Issued capital.....	27	—	—	—	60
Reserves	28(a)	121,408	148,551	188,346	262,661
		121,408	148,551	188,346	262,721
Non-controlling interest	29	22,775	24,521	26,906	27,022
Total equity		144,183	173,072	215,252	289,743

(C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent					Non-controlling interest	Total equity
	Issued capital	Exchange fluctuation reserve*	Reserve funds*	Retained profits*	Total		
	HK\$'000 (note 27)	HK\$'000 (note 28(a)(ii))	HK\$'000 (note 28(a)(iii))	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	—	21,570	3,637	64,334	89,541	20,195	109,736
Profit for the year	—	—	—	23,985	23,985	1,556	25,541
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	—	7,882	—	—	7,882	1,024	8,906
Total comprehensive income for the year	—	7,882	—	23,985	31,867	2,580	34,447
Transfer to reserve funds	—	—	2,243	(2,243)	—	—	—
At 31 December 2011 and 1 January 2012	—	29,452	5,880	86,076	121,408	22,775	144,183
Profit for the year	—	—	—	25,491	25,491	1,543	27,034
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	—	1,652	—	—	1,652	203	1,855
Total comprehensive income for the year	—	1,652	—	25,491	27,143	1,746	28,889
Transfer to reserve funds	—	—	2,361	(2,361)	—	—	—
At 31 December 2012 and 1 January 2013	—	31,104	8,241	109,206	148,551	24,521	173,072
Profit for the year	—	—	—	32,259	32,259	1,635	33,894
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	—	7,536	—	—	7,536	750	8,286
Total comprehensive income for the year	—	7,536	—	32,259	39,795	2,385	42,180
Transfer to reserve funds	—	—	2,978	(2,978)	—	—	—
At 31 December 2013	—	38,640	11,219	138,487	188,346	26,906	215,252

APPENDIX I

ACCOUNTANTS' REPORT

	Attributable to owners of the parent							Non-controlling interest	Total equity
	Issued capital	Share premium*	Other reserve*	Exchange fluctuation reserve*	Reserve funds*	Retained profits*	Total		
	HK\$'000 (note 27)	HK\$'000 (note 28(b))	HK\$'000 (note 28(a)(i))	HK\$'000 (note 28(a)(ii))	HK\$'000 (note 28(a)(iii))	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014.....	—	—	—	38,640	11,219	138,487	188,346	26,906	215,252
Profit for the period.....	—	—	—	—	—	1,055	1,055	972	2,027
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations.....	—	—	—	(8,984)	—	—	(8,984)	(856)	(9,840)
Total comprehensive income for the period ..	—	—	—	(8,984)	—	1,055	(7,929)	116	(7,813)
Issue of shares.....	—	—	—	—	—	—	—	—	—
Issue of shares pursuant to the Share Swap.....	60	113,720	(113,780)	—	—	—	—	—	—
Capitalisation of shareholders' loans	—	—	82,304	—	—	—	82,304	—	82,304
Transfer from reserve funds	—	—	—	—	(6)	6	—	—	—
At 31 May 2014.....	<u>60</u>	<u>113,720</u>	<u>(31,476)</u>	<u>29,656</u>	<u>11,213</u>	<u>139,548</u>	<u>262,721</u>	<u>27,022</u>	<u>289,743</u>
At 1 January 2013.....	—	—	—	31,104	8,241	109,206	148,551	24,521	173,072
Profit for the period (unaudited).....	—	—	—	—	—	15,839	15,839	648	16,487
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations (unaudited).....	—	—	—	4,222	—	—	4,222	429	4,651
Total comprehensive income for the period (unaudited).....	—	—	—	4,222	—	15,839	20,061	1,077	21,138
Transfer to reserve funds (unaudited).....	—	—	—	—	1,226	(1,226)	—	—	—
At 31 May 2013 (unaudited).....	<u>—</u>	<u>—</u>	<u>—</u>	<u>35,326</u>	<u>9,467</u>	<u>123,819</u>	<u>168,612</u>	<u>25,598</u>	<u>194,210</u>

* These reserve accounts comprise the consolidated reserves of HK\$121,408,000, HK\$148,551,000, HK\$188,346,000 and HK\$262,661,000 in the consolidated statements of financial position as at 31 December 2011, 2012 and 2013 and 31 May 2014, respectively.

(D) CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Five months ended 31 May	
	Notes	2011	2012	2013	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		31,325	34,007	47,974	22,211	7,460
Adjustments for:						
Interest income	7	(82)	(439)	(1,509)	(762)	(22)
Depreciation	9	118	164	323	116	165
Gain on bargain purchase of subsidiaries	7	—	—	(3,410)	(3,410)	—
Provision for major overhauls	9	494	535	766	289	405
Finance costs	8	91	492	2,468	1,100	380
		31,946	34,759	46,612	19,544	8,388
Decrease/(increase) in inventories		138	7	(110)	(36)	(79)
Decrease/(increase) in receivables under service concession arrangements and bills receivable ...		(15,373)	(10,177)	4,453	(13,949)	19,220
Decrease/(increase) in prepayments and other receivables		219	492	313	180	(3,060)
Increase/(decrease) in trade payables..		(6,036)	(710)	634	140	3,757
Increase/(decrease) in other payables and accruals		(2,444)	(4,236)	(6,945)	(465)	1,640
Cash generated from operations		8,450	20,135	44,957	5,414	29,866
Income tax paid		(3,571)	(4,090)	(5,701)	(1,418)	(13,359)
Net cash flows from operating activities.....		4,879	16,045	39,256	3,996	16,507
CASH FLOWS FROM INVESTING ACTIVITIES						
Payment for purchases of items of property, plant and equipment.....		(394)	(480)	(1,448)	(612)	(127)
Acquisition of subsidiaries	30	—	—	13,350	13,350	—
Interest received		82	389	1,559	762	22
Repayment from/(advance to) Rugao City New Infrastructure Investment Company Limited		—	(24,588)	25,230	—	—
Decrease/(increase) in other receivables.....		(6,021)	861	33,373	—	—
Decrease/(increase) in amounts due from related parties		(37,090)	(19,210)	111,551	25,214	533
Net cash flows from/(used in) investing activities.....		(43,423)	(43,028)	183,615	38,714	428

APPENDIX I**ACCOUNTANTS' REPORT**

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)				
CASH FLOWS FROM FINANCING ACTIVITIES					
New bank borrowing	—	24,588	—	—	—
Repayment of bank borrowings	—	—	(33,030)	(3,900)	(3,900)
Increase/(decrease) in amounts due to related parties	27,111	14,431	(142,719)	(42,719)	(15,849)
Interest paid	—	(323)	(2,321)	(1,022)	(288)
Increase/(decrease) in an amount due to a non-controlling equity holder of Haian Hengfa	3,828	3,556	—	—	(32,847)
Net cash flows from/(used in) financing activities	30,939	42,252	(178,070)	(47,641)	(52,884)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(7,605)	15,269	44,801	(4,931)	(35,949)
Cash and cash equivalents at beginning of year/period	20,966	14,195	29,606	29,606	75,625
Effect of foreign exchange rate changes, net	834	142	1,218	404	(1,686)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>14,195</u>	<u>29,606</u>	<u>75,625</u>	<u>25,079</u>	<u>37,990</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	<u>14,195</u>	<u>29,606</u>	<u>75,625</u>	<u>25,079</u>	<u>37,990</u>

(E) STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 May 2014
		HK\$'000
NON-CURRENT ASSET		
Investment in a subsidiary		<u>113,780</u>
Net asset.....		<u><u>113,780</u></u>
EQUITY		
Issued capital.....	27	60
Share premium.....	28(b)	<u>113,720</u>
Total equity		<u><u>113,780</u></u>

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands. The registered office of the Company is P.O. Box 39, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is located at Units 1-3, 11th Floor, Westlands Centre, 20 Westland Road, Hong Kong.

The Company is an investment holding company. During the Track Record Period, the Company's principal subsidiaries were engaged in the construction and operation of wastewater treatment facilities.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus.

As at the end of the Track Record Period, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration and place of operations	Issued and paid up ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ELL Environmental Limited ("ELL BVI") (a)	British Virgin Islands ("BVI") 25 February 2014	US\$100	100%	—	Investment holding
Everbest Water Treatment Development Company Limited ("Everbest Water Treatment Development") (b)	Hong Kong 8 May 2002	HK\$1,000	—	100%	Investment holding
Grand Target Holdings Limited (a)	BVI 8 January 2013	HK\$100	—	100%	Investment holding
Greatcorp International Limited ("Greatcorp") (c)	Hong Kong 10 February 2010	HK\$100	—	100%	Investment holding
Haian Hengfa Wastewater Treatment Company Limited (海安恒發污水處理有限公司) ("Haian Hengfa") *(d)	The People's Republic of China (the "PRC") 18 December 2002	RMB30,000,000	—	70%	Wastewater treatment
Rugao Hengfa Water Treatment Company Limited (如皋恒發水處理有限公司) ("Rugao Hengfa") *(e)	The PRC 27 November 2003	US\$5,880,000	—	100%	Wastewater treatment

APPENDIX I

ACCOUNTANTS' REPORT

Company name	Place and date of incorporation/ registration and place of operations	Issued and paid up ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Rugao Honghao Metal Surface Water Treatment Company Limited (如皋宏皓金屬表面水處理 有限公司) ("Rugao Honghao") */(e)	The PRC 30 April 2010	US\$4,500,000	—	100%	Wastewater treatment
Haian Hengfa Property Development Company Limited ("Haian Property") (海安恆發置業有限公司)*/(f)	The PRC 6 June 2003	RMB12,000,000	—	100%	Inactive

Notes:

- (a) No statutory financial statements have been prepared for these entities since their incorporations as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- (b) The statutory financial statements of this entity for the years ended 31 December 2011, 2012 and 2013 prepared under HKFRSs were audited by LKY China, certified public accountants registered in Hong Kong.
- (c) During the year ended 31 December 2013, the Group acquired this entity. The statutory financial statements of this entity for the year ended 31 December 2013 prepared under HKFRSs were audited by LKY China, certified public accountants registered in Hong Kong. Further details of this acquisition are included in note 30 to Section II of the Financial Information.
- (d) Haian Hengfa is registered as a sino-foreign equity joint venture under the laws of the PRC. The statutory financial statements for the years ended 31 December 2011, 2012 and 2013 prepared under PRC Generally Accepted Accounting Principles were audited by Haian Haishen Certified Public Accountants Co., Ltd.* (海安海審會計師事務所有限公司), certified public accountants registered in the PRC.
- (e) Rugao Hengfa and Rugao Honghao are registered as wholly-owned foreign enterprises under the laws of the PRC. The statutory financial statements for the years ended 31 December 2011, 2012 and 2013 (or since the date of acquisition, where later than the beginning of the Track Record Period) prepared under PRC Generally Accepted Accounting Principles were audited by Jiangsu Gaojian Certified Public Accountants Co., Ltd.* (江蘇皋劍會計師事務所有限公司), certified public accountants registered in the PRC. During the year ended 31 December 2013, the Group acquired Rugao Honghao. Further details of this acquisition are included in note 30 to Section II of the Financial Information.
- (f) The statutory financial statements of this entity for the years ended 31 December 2011, 2012 and 2013 prepared under PRC Generally Accepted Accounting Principles were audited by Haian Zhongxin Certified Public Accountants Co., Ltd.* (海安中信會計師事務所有限公司), certified public accountants registered in the PRC. This entity has been deregistered subsequently on 6 June 2014.
- * The English names of these entities represent management's best effort at translating their Chinese names as they did not register any official English names.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” to the Prospectus, the Company became the holding company of the companies now comprising the Group on 25 February 2014. The Reorganisation has been accounted for in accordance with the principle similar to a reverse acquisition as set out in HKFRS 3 *Business Combinations*. The issue of shares of the Company in exchange for the equity interest in Everbest Water Treatment Development resulted in the Company becoming the holding company of Everbest Water Treatment Development. The Financial Information has been prepared as a continuation of Everbest Water Treatment Development and its subsidiaries (“Everbest Water Group”) and the assets and liabilities of Everbest Water Group are recognised and measured at their historical carrying values prior to the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Track Record Period.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

Basis of consolidation

The Financial Information includes the financial statements of the Group for the Track Record 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 9 (2014)	<i>Financial Instruments</i> ⁴
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ⁵
HKFRS 11 Amendments	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 14	<i>Regulatory Deferral Accounts</i> ²
HKFRS 15	<i>Revenue from Contracts with Customers</i> ³
HKAS 16 and HKAS 38 Amendments	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
HKAS 16 and HKAS 41 Amendments	<i>Agriculture: Bearer Plants</i> ²
HKAS 19 Amendments	<i>Amendments to HKAS 19 Employee Benefits — Defined Benefit Plans: Employee Contributions</i> ¹
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014 ¹
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014 ¹

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

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 that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

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 by 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 a liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. 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 the end of each reporting period. 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 disposed operation and the portion of the cash-generating unit retained.

Fair value measurement

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 Information 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 Information 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 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.

Property, plant and equipment and depreciation

Property, plant and equipment 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:

Equipment.....	10%
Office equipment	20%
Motor vehicles	20%

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 sales proceeds and the carrying amount of the relevant asset.

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); and
 - (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).

Service concession arrangements*Consideration given by the grantor*

A financial asset is recognised to the extent that (a) 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 (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. 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 quality of efficiency requirements. The financial asset is classified as receivables under service concession arrangements and is accounted for in accordance with the policy set out for loans and receivables under “Investments and other financial assets” below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for “Operating concessions” below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable in respect of work carried out until that date.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for “Construction contracts” below.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for “Revenue recognition” below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations (a) to maintain the wastewater treatment facilities it operates to a specified level of serviceability and (b) to restore the facilities to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the wastewater treatment facilities, except for upgrade element, are recognised and measured in accordance with the policy set out for “Provisions” below.

Operating concessions

Operating concessions represent the rights to operate wastewater treatment facilities are stated at cost less accumulated amortisation and any accumulated impairment losses. Operating concessions acquired separately are measured on initial recognition at cost. The cost of operating concessions acquired in a business combination is the fair value as at the date of acquisition. Amortisation is

provided on the straight-line basis over the respective periods of the operating concessions granted and assessed for impairment whenever there is an indication that operating concessions may be impaired. The amortisation period and the amortisation method for an operating concession with a finite useful life are reviewed at least at the end of each reporting period.

An operating concession 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 period the operating concession is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant operating concession.

Construction contracts

Revenue from the construction of wastewater treatment facilities under the terms of Build-Operate-Transfer (“BOT”) contracts (service concession agreements) is estimated on a cost-plus basis in which the construction margin is determined with reference to a prevailing market rate of gross margins of market comparables at the time of construction and is recognised on the percentage-of-completion method, measured by reference to the estimated proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are 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.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in “Revenue” or “Other income and gains”, as appropriate, in profit or loss. The loss arising from impairment is recognised in “Other expenses” in profit or loss.

Impairment of financial assets

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 item of 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 effective interest rate (i.e., the effective interest rate 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 and is accrued 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 "Other expenses" in profit or loss.

Derecognition

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.

Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings. All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements 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 are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. When inventories are consumed, the carrying value of those inventories is recognised as an expense in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

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 each 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 “Finance costs” 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 for the current and prior periods 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 each 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 each 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, 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, 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 each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from construction services, on the percentage-of-completion basis, as further explained in the accounting policy for “Construction contracts” above;
- (b) from the rendering of wastewater treatment operation services, when the service is rendered;
- (c) interest income, on an accrual basis using the effective interest 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; and
- (d) dividend income, when the shareholders’ right to receive payment has been established.

Employee benefits*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who 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.

The employees of the Group’s operations in the PRC are required to participate in central pension schemes operated by the local municipal governments, the assets of which are held separately from those of the Group. Contributions are made by the Group based on a percentage of the participating employees’ salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes. The employer contributions vest fully once made.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. 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.

Foreign currencies

The Financial Information is presented in Hong Kong dollars, which is the Company’s functional and presentation currency. 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 each reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. 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 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 certain subsidiaries in the PRC are currencies other than the Hong Kong dollar. As at the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of each reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for each reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation 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.

For the purpose of the consolidated statements of cash flows, the cash flows of certain subsidiaries in the PRC are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout each reporting period are translated into Hong Kong dollars at the weighted average exchange rates for each reporting period.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the 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.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the Financial Information and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Service concession arrangements

The Group entered into BOT arrangements in wastewater treatment. The Group concluded that the BOT arrangements are service concession arrangements under HK(IFRIC) - Int 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 addition, upon expiry of concession right agreement, the infrastructure has to be transferred to the local government at nil consideration.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of wastewater treatment facilities under the terms of a BOT contract is estimated on a cost-plus basis in which the construction margin is determined with reference to a prevailing market rate of gross margins of market comparables at the time of construction, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The construction margin is determined by CBRE Limited, independent professional qualified valuer, based on the gross profit margins of market comparable by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

- (i) the peer firm must be in the field of the construction of infrastructure, preferably focusing in wastewater treatment facility operation in the PRC; and
- (ii) information of the peer firm must be available and from a reliable source.

In relation to the improvement works of the wastewater treatment facility in Rugao Hengfa ("Rugao Hengfa Facility") carried out during the five months ended 31 May 2014, the construction margin adopted was the minimum guaranteed investment return as agreed by Rugao County Economic Development Zone Administration Committee* (江蘇省如皋經濟開發區管委會) with reference to the minimum guaranteed investment return for the Rugao Hengfa Facility as provided for in the relevant BOT agreement.

* The official name is in Chinese. The English translation is for identification purposes only.

Determination of imputed interest income on receivables under service concession arrangements

Imputed interest income is recognised from time to time on receivables under service concession arrangements on an accrual basis using the effective interest method by discounting the estimated future cash receipts over the service concession period at the effective interest rate computed at initial recognition.

The relevant effective interest rate is determined by CBRE Limited, independent professional qualified valuer, based on the yield of corporate bonds of comparable PRC infrastructure companies which:

- (i) the issuer of the corporate bond is doing similar business in the PRC;
- (ii) the corporate bond is listed on PRC stock exchanges and actively traded;
- (iii) the maturity year of corporate bond is in the range of 15 to 30 years, which is in line with concession period of the wastewater treatment facilities; and
- (iv) information of the corporate bond must be publicly available and from a reliable source.

The assessment of comparability of the selected PRC infrastructure companies involved, to certain extent, the subjective judgement of the independent professional qualified valuer. Based on the above, the relevant interest rates used for the BOT arrangements, as determined by the independent professional qualified valuer, ranged from 4.02% to 5.99%.

Provision for major overhauls of wastewater treatment facilities to a specified level of serviceability

The Group has contractual obligations (a) to maintain the wastewater treatment facilities it operates to a specified level of serviceability and (b) to restore the facilities to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of each reporting period. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the wastewater treatment facilities over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the provision for major overhauls carried as a liability in the consolidated statements of financial position as at 31 December 2011, 2012 and 2013 and 31 May 2014 was HK\$2,121,000, HK\$2,810,000, HK\$4,134,000 and HK\$4,494,000, respectively, further details of which are set out in note 26 to Section II of the Financial Information.

Impairment of receivables under service concession arrangements, bills and other receivables and amounts due from related parties

The policy for provision for impairment of receivables under service concession arrangements, bills and other receivables and amounts due from related parties of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation 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 were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The aggregate carrying amounts of receivables under service concession arrangements, bills and other receivables and amounts due from related parties carried as assets in the consolidated statements of financial position as at 31 December 2011, 2012 and 2013 and 31 May 2014 were HK\$346,562,000, HK\$402,593,000, HK\$345,725,000 and HK\$311,374,000, respectively. Further details are set out in notes 17, 19 and 23 to Section II of the Financial Information.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong and the PRC. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is

different from the amounts that were initially recorded, the differences will impact on the income tax and deferred tax provision in the periods in which the determination is made. The carrying amounts of current tax payables and deferred tax liabilities are set out in the consolidated statements of financial position and note 25 to Section II of the Financial Information, respectively.

6. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the construction and operation of wastewater treatment facilities. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

All of the Group's revenue is derived from customers located in the PRC and all of the Group's non-current assets are located in the PRC.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for each reporting period during the Track Record Period and the five months ended 31 May 2013 is set out below:

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Customer A.....	11,944	12,336	13,203	5,006	10,796
Customer B.....	32,616	34,564	51,887	19,987	24,745
	<u>44,560</u>	<u>46,900</u>	<u>65,090</u>	<u>24,993</u>	<u>35,541</u>

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts under service concession arrangements; (2) revenue from operation of wastewater treatment facilities under service concession arrangements, net of government surcharges; and (3) the imputed interest income on receivables under service concession arrangements.

An analysis of the Group's revenue, other income and gains is as follows:

Note	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Revenue					
Construction services	—	—	—	—	7,189
Wastewater treatment facilities operation services	34,304	36,464	51,509	19,812	22,390
Imputed interest income on receivables under service concession arrangements	10,256	10,436	13,581	5,181	5,962
	<u>44,560</u>	<u>46,900</u>	<u>65,090</u>	<u>24,993</u>	<u>35,541</u>
Other income and gains					
Interest income	82	439	1,509	762	22
Foreign exchange gains, net	—	5	64	—	73
Government subsidies#	—	—	542	—	—
Refund of sewage discharge fee	423	—	—	—	—
Gain on bargain purchase of subsidiaries	30	—	3,410	3,410	—
Others	24	98	139	—	45
	<u>529</u>	<u>542</u>	<u>5,664</u>	<u>4,172</u>	<u>140</u>

Subsidies have been received from local governments in Jiangsu Province for the purpose of carrying out environmental protection works. There were no unfulfilled conditions or contingencies relating to these subsidies as at 31 December 2013.

8. FINANCE COSTS

Note	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Interest on a bank loan wholly repayable within five years...	—	363	2,281	1,022	288
Increase in discounted amounts of provision for major overhauls arising from the passage of time	26	91	129	187	78
	<u>91</u>	<u>492</u>	<u>2,468</u>	<u>1,100</u>	<u>380</u>

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Five months ended 31 May	
		2011	2012	2013	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
Cost of construction services ...		—	—	—	—	6,349
Cost of wastewater treatment facilities operation services rendered		10,508	10,350	15,769	4,803	7,058
Depreciation	16	118	164	323	116	165
Auditors' remuneration		18	15	19	—	—
Listing expenses		—	—	1,598	—	11,660
Employee benefit expense:						
Salaries, wages and benefits in kind.....		2,329	2,758	3,289	1,367	2,220
Pension scheme contributions*.		221	252	284	119	150
		<u>2,550</u>	<u>3,010</u>	<u>3,573</u>	<u>1,486</u>	<u>2,370</u>
Foreign exchange differences, net.....		1	(5)	(64)	—	(73)
Provision for major overhauls ..	26	<u>494</u>	<u>535</u>	<u>766</u>	<u>289</u>	<u>405</u>

* At 31 December 2011, 2012 and 2013 and 31 May 2014, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company was incorporated in the Cayman Islands on 25 February 2014. Mr. Chau On Ta Yuen and Mr. Chan Kwan were appointed as executive directors of the Company on 18 March 2014 and 25 February 2014, respectively. Mr. Chan Pak Lam Brian and Mr. Chau Chi Yan Benny were appointed as non-executive directors of the Company on 18 March 2014, and Mr. Chan Kwan was appointed as the chief executive officer of the Company on 18 March 2014. Ms. Ng Chung Yan Linda, Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict were appointed as independent non-executive directors of the Company on 5 September 2014. No directors of the Company received remuneration from the Group as capacity of the Company's directors since the dates of their appointments.

Certain of the directors received remuneration from the subsidiaries now comprising, the Group for their appointments as directors of these subsidiaries. The respective remuneration of each of these directors as recorded in the subsidiaries is set out below:

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK\$'000	HK\$'000	HK\$'000
For the year ended 31 December 2011			
Executive directors:			
Mr. Chan Kwan.....	79	—	79
Mr. Chau On Ta Yuen.....	72	—	72
	<u>151</u>	<u>—</u>	<u>151</u>
For the year ended 31 December 2012			
Executive directors:			
Mr. Chan Kwan.....	80	—	80
Mr. Chau On Ta Yuen.....	74	—	74
	<u>154</u>	<u>—</u>	<u>154</u>
For the year ended 31 December 2013			
Executive directors:			
Mr. Chan Kwan.....	82	—	82
Mr. Chau On Ta Yuen.....	76	—	76
	<u>158</u>	<u>—</u>	<u>158</u>
For the five months ended 31 May 2013 (unaudited)			
Executive directors:			
Mr. Chan Kwan.....	31	—	31
Mr. Chau On Ta Yuen.....	31	—	31
	<u>62</u>	<u>—</u>	<u>62</u>
For the five months ended 31 May 2014			
Executive directors:			
Mr. Chan Kwan.....	32	—	32
Mr. Chau On Ta Yuen.....	32	—	32
	<u>64</u>	<u>—</u>	<u>64</u>

For each reporting period during the Track Record Period and the five months ended 31 May 2013, the remuneration of Mr. Chau On Ta Yuen and Mr. Chan Kwan received from subsidiaries disclosed above were also included in the remuneration of the five highest paid individuals as set out in note 11 to Section II of the Financial Information.

11. FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the five highest paid employees for each reporting period during the Track Record Period and the five months ended 31 May 2013 are analysed as follows:

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Salaries, allowances and benefits in kind.....	550	622	674	261	728
Discretionary bonuses	—	—	—	—	—
Pension scheme contributions.....	6	6	8	3	15
	<u>556</u>	<u>628</u>	<u>682</u>	<u>264</u>	<u>743</u>

The number of highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
				(Unaudited)	
Nil to HK\$1,000,000.....	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Period, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong profits tax had been made for each reporting period during the Track Record Period and the five months ended 31 May 2013 as the Group did not generate any assessable profits arising in Hong Kong during the Track Record Period.

The PRC statutory income tax rate is 25%. Prior to 1 January 2008, Rugao Hengfa was entitled to a two-year full exemption from income tax followed by a three-year 50% reduction in income tax rate (the "2+3 tax holiday") starting from the first profit-making year from a PRC tax perspective. On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC which became effective on 1 January 2008. The PRC Corporate Income Tax Law and its relevant regulations grandfather the 2+3 tax holiday until it expires, and require it to commence on 1 January 2008 if it was not started earlier. Accordingly, Rugao Hengfa commenced its 2+3 tax holiday in 2008. Rugao Hengfa is subject to income tax at 12.5% from 2011 to 2012, and at 25% from 2013 onwards.

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Current — PRC					
Charge for the year/period	4,275	4,609	9,455	3,817	5,020
Overprovision in prior years	(512)	—	—	—	—
Deferred (note 25)	2,021	2,364	4,625	1,907	413
Total tax expense for the year/period	<u>5,784</u>	<u>6,973</u>	<u>14,080</u>	<u>5,724</u>	<u>5,433</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for jurisdictions in which the Company's subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Profit before tax	<u>31,325</u>	<u>34,007</u>	<u>47,974</u>	<u>22,211</u>	<u>7,460</u>
Tax at the statutory tax rates of different jurisdictions	7,857	8,506	12,232	5,609	2,970
Lower tax rate enacted by a local authority	(3,132)	(3,337)	—	—	—
Adjustments in respect of current tax of previous periods	(512)	—	—	—	—
Effect of withholding tax on the distributable profits of the Group's subsidiaries in the PRC	1,372	1,422	2,154	826	582
Income not subject to tax	—	—	(946)	(882)	(304)
Expenses not deductible for tax ...	<u>199</u>	<u>382</u>	<u>640</u>	<u>171</u>	<u>2,185</u>
Tax expense at the Group's effective tax rate	<u>5,784</u>	<u>6,973</u>	<u>14,080</u>	<u>5,724</u>	<u>5,433</u>

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

No consolidated profit attributable to owners of the parent for the five months ended 31 May 2014 has been dealt with in the financial statements of the Company.

14. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation up to the end of the Track Record Period.

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the number of shares as at the end of each reporting period of the Track Record Period and 31 May 2013 will be different from the number of shares immediately after the completion of the Reorganisation.

16. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2011				
At 1 January 2011:				
Cost.....	52	201	931	1,184
Accumulated depreciation	(24)	(122)	(417)	(563)
Net carrying amount	<u>28</u>	<u>79</u>	<u>514</u>	<u>621</u>
At 1 January 2011, net of accumulated depreciation	28	79	514	621
Additions	355	39	—	394
Depreciation	(23)	(24)	(71)	(118)
Exchange realignment	<u>10</u>	<u>4</u>	<u>23</u>	<u>37</u>
At 31 December 2011, net of accumulated depreciation	<u>370</u>	<u>98</u>	<u>466</u>	<u>934</u>
At 31 December 2011:				
Cost.....	419	251	976	1,646
Accumulated depreciation	(49)	(153)	(510)	(712)
Net carrying amount	<u>370</u>	<u>98</u>	<u>466</u>	<u>934</u>
31 December 2012				
At 1 January 2012:				
Cost.....	419	251	976	1,646
Accumulated depreciation	(49)	(153)	(510)	(712)
Net carrying amount	<u>370</u>	<u>98</u>	<u>466</u>	<u>934</u>
At 1 January 2012, net of accumulated depreciation	370	98	466	934
Additions	277	201	2	480
Depreciation	(46)	(45)	(73)	(164)
Exchange realignment	<u>6</u>	<u>3</u>	<u>2</u>	<u>11</u>
At 31 December 2012, net of accumulated depreciation	<u>607</u>	<u>257</u>	<u>397</u>	<u>1,261</u>
At 31 December 2012:				
Cost.....	703	456	987	2,146
Accumulated depreciation	(96)	(199)	(590)	(885)
Net carrying amount	<u>607</u>	<u>257</u>	<u>397</u>	<u>1,261</u>

APPENDIX I**ACCOUNTANTS' REPORT**

	Equipment	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2013				
At 1 January 2013:				
Cost.....	703	456	987	2,146
Accumulated depreciation	(96)	(199)	(590)	(885)
Net carrying amount	<u>607</u>	<u>257</u>	<u>397</u>	<u>1,261</u>
At 1 January 2013, net of accumulated depreciation	607	257	397	1,261
Additions	1,255	193	—	1,448
Acquisition of subsidiaries (note 30).....	—	77	—	77
Depreciation	(160)	(88)	(75)	(323)
Exchange realignment	<u>35</u>	<u>11</u>	<u>11</u>	<u>57</u>
At 31 December 2013, net of accumulated depreciation	<u>1,737</u>	<u>450</u>	<u>333</u>	<u>2,520</u>
At 31 December 2013:				
Cost.....	1,983	744	1,016	3,743
Accumulated depreciation	(246)	(294)	(683)	(1,223)
Net carrying amount	<u>1,737</u>	<u>450</u>	<u>333</u>	<u>2,520</u>
31 May 2014				
At 1 January 2014:				
Cost.....	1,983	744	1,016	3,743
Accumulated depreciation	(246)	(294)	(683)	(1,223)
Net carrying amount	<u>1,737</u>	<u>450</u>	<u>333</u>	<u>2,520</u>
At 1 January 2014, net of accumulated depreciation	1,737	450	333	2,520
Additions	—	85	42	127
Depreciation	(92)	(45)	(28)	(165)
Exchange realignment	<u>(54)</u>	<u>(15)</u>	<u>(10)</u>	<u>(79)</u>
At 31 May 2014, net of accumulated depreciation	<u>1,591</u>	<u>475</u>	<u>337</u>	<u>2,403</u>
At 31 May 2014:				
Cost.....	1,921	807	1,026	3,754
Accumulated depreciation	(330)	(332)	(689)	(1,351)
Net carrying amount	<u>1,591</u>	<u>475</u>	<u>337</u>	<u>2,403</u>

17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC on a BOT basis in respect of its wastewater treatment services. Pursuant to the service concession arrangements, the Group has to design, construct, operate and manage wastewater treatment facilities in the PRC over the service concession periods. The governmental authorities guarantee that the Group will receive minimum annual payments in connection with the arrangements. The Group is generally entitled to use the wastewater treatment facilities and the related facilities (the "Facilities"), however, the Group has the obligation to maintain the Facilities in good condition and the Facilities will be transferred to the relevant governmental authorities at a specified level of serviceability upon expiry of the concession periods. The service concession arrangements do not contain renewal options. The BOT agreements do not grant any termination rights to any of the contracting parties.

As at 31 December 2011, 2012 and 2013 and 31 May 2014, the Group had 4, 4, 5 and 5 service concession arrangements on wastewater treatment, respectively, with two governmental authorities in the PRC and a summary of the major terms of the principal service concession arrangements, as at the date of this report, are set out as follows:

Name of company as operator	Name of wastewater treatment facilities	Location	Name of grantor	Type of service concession arrangement	Designed processing capacity ton/day	Service concession period
Haian Hengfa	Haian Hengfa Municipal Wastewater Treatment Facility (Phase I)	Haian County, Nantong City	Haian County Construction Bureau* (江蘇省海安縣建設局)	BOT on wastewater treatment	20,000	28 years from 2002 to 2030 and extended to 2036 in 2013
Haian Hengfa	Haian Hengfa Municipal Wastewater Treatment Facility (Phase II)	Haian County, Nantong City	Haian County Construction Bureau	BOT on wastewater treatment	20,000	22.5 years from 2013 to 2036
Rugao Hengfa.....	Rugao Hengfa Municipal and Industrial Wastewater Treatment Facility (Phase I)	Rugao County, Nantong City	Rugao County Economic Development Zone Administration Committee	BOT on wastewater treatment	20,000	25 years from 2007 to 2032 and extended to 2035 in 2009

APPENDIX I**ACCOUNTANTS' REPORT**

Name of company as operator	Name of wastewater treatment facilities	Location	Name of grantor	Type of service concession arrangement	Designed processing capacity ton/day	Service concession period
Rugao Hengfa.....	Rugao Hengfa Municipal and Industrial Wastewater Treatment Facility (Phase II)	Rugao County, Nantong City	Rugao County Economic Development Zone Administration Committee	BOT on wastewater treatment	20,000	25 years from 2010 to 2035
Rugao Honghao.....	Rugao Honghao Heavy Metals Wastewater Treatment Facility	Rugao County, Nantong City	Rugao County Economic Development Zone Administration Committee	BOT on wastewater treatment	3,500	28 years from 2011 to 2039

* The official name of the grantor is in Chinese. The English translation is for identification purposes only.

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the wastewater treatment facilities and certain related land during the service concession periods, but the Group is generally required to surrender this property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective service concession periods. As at the end of the Track Record Period, the title certificates with respect to certain land use rights of certain wastewater treatment facilities to which the Group's service concession arrangements relate did not register under the names of the relevant companies in the Group. The Directors are of the opinion that the Group is entitled to the lawful and valid occupation or use of the buildings and land to which the above-mentioned land use rights relate.

No revenue was recognised for exchanging construction services for a financial asset or an intangible asset for the years ended 31 December 2011, 2012 and 2013. For the five months ended 31 May 2014, revenue and profit amounted to HK\$7,189,000 and HK\$840,000, respectively, were recognised for exchanging construction services for a financial asset and no revenue was recognised for exchanging construction services for an intangible asset. Revenue relates to the construction and operation services under BOT arrangements is recognised as "receivables under service concession arrangements" in the Financial Information.

At 31 December 2011, 2012 and 2013 and 31 May 2014, certain wastewater treatment concession rights of the Group comprising receivables under service concession arrangements with a carrying amount of HK\$142,546,000, HK\$149,690,000, HK\$231,467,000 and HK\$205,396,000, respectively, were pledged to secure a bank loan granted to Greatcorp, which was a related party for the years ended 31 December 2011 and 2012 and became a wholly-owned subsidiary of the Group since 15 February 2013 (note 24).

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Receivables under service concession arrangements	236,409	248,622	340,408	308,417
Bills receivable	—	—	—	2,481
	<u>236,409</u>	<u>248,622</u>	<u>340,408</u>	<u>310,898</u>
Receivables under service concession arrangements	236,409	248,622	340,408	308,417
Portion classified as current assets	(29,636)	(40,451)	(50,804)	(25,745)
Non-current portion	<u>206,773</u>	<u>208,171</u>	<u>289,604</u>	<u>282,672</u>

As at the end of each reporting period during the Track Record Period, the ageing analysis of receivables under service concession arrangements, based on invoice date, is as below:

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Billed:				
Within 3 months	11,342	10,053	17,209	17,128
4 to 6 months	10,976	10,431	16,964	—
7 to 12 months	3,383	13,847	6,094	—
Over 1 year	<u>355</u>	<u>2,416</u>	<u>4,481</u>	<u>—</u>
	26,056	36,747	44,748	17,128
Not yet billed	<u>210,353</u>	<u>211,875</u>	<u>295,660</u>	<u>291,289</u>
	<u>236,409</u>	<u>248,622</u>	<u>340,408</u>	<u>308,417</u>

Receivables under service concession arrangements are usually due for settlement within 10 days after each month end. Exposures to credit risk are monitored on an ongoing basis. The Group has only two customers whom are local government authorities in the PRC and therefore concentration of credit risk existed. The Group does not hold any collateral or other credit enhancements over these receivable balances. In view of the fact that the parties to BOT arrangements are municipal governments in the PRC, the Directors consider the credit risk is not significant.

An ageing analysis of receivables under service concession arrangements that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	210,353	211,875	295,660	291,289
Less than 1 month past due.....	4,064	3,789	5,694	6,080
1 to 3 months past due.....	7,278	6,264	11,515	11,048
4 to 6 months past due.....	10,976	10,431	16,964	—
7 months to 1 year past due.....	3,383	13,847	6,094	—
Over 1 year past due.....	355	2,416	4,481	—
	<u>236,409</u>	<u>248,622</u>	<u>340,408</u>	<u>308,417</u>

As at 31 May 2014, none of the Group's bills receivable was either past due or impaired.

18. INVENTORIES

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	<u>130</u>	<u>124</u>	<u>349</u>	<u>416</u>

Inventories mainly comprise materials consumed during the provision of wastewater treatment facilities operation services.

19. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments.....	368	385	1,463	4,144
Other receivables	26,956	50,816	4,775	476
	<u>27,324</u>	<u>51,201</u>	<u>6,238</u>	<u>4,620</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

Included in the above other receivables as at 31 December 2012 was an unsecured receivable from Rugao City New Infrastructure Investment Company Limited (如皋市新區基礎設施投資有限公司), an independent third party of the Group, amounting to HK\$24,878,000 which was interest-bearing at 120% of the People's Bank of China's base lending rate for a term of one year. The balance was fully settled during the year ended 31 December 2013. Apart from the abovementioned, the remaining other receivables balance is unsecured, interest-free and has no fixed terms of repayment.

20. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	<u>14,195</u>	<u>29,606</u>	<u>75,625</u>	<u>37,990</u>
Cash and cash equivalents				
denominated in:				
Renminbi ("RMB").....	14,169	16,635	67,748	30,899
HK\$	26	12,971	73	6,818
United States dollars ("US\$")	—	—	7,804	273
	<u>14,195</u>	<u>29,606</u>	<u>75,625</u>	<u>37,990</u>

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.

21. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each reporting period during the Track Record Period, based on the invoice date, is as follows:

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 month	1,000	784	1,798	4,858
1 to 3 months	44	44	155	49
Over 3 months	4,704	648	521	1,188
	<u>5,748</u>	<u>1,476</u>	<u>2,474</u>	<u>6,095</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 days.

22. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables	42,122	45,410	41,968	4,373
Accruals	177	183	1,035	2,149
	<u>42,299</u>	<u>45,593</u>	<u>43,003</u>	<u>6,522</u>

Included in the above other payables as at 31 December 2011, 2012 and 2013 and 31 May 2014 was an amount due to a non-controlling equity holder of Haian Hengfa amounted to HK\$36,544,000, HK\$40,439,000, HK\$41,635,000 and HK\$3,540,000 respectively. The balance had been fully settled subsequent to the end of the Track Record Period.

Other payables and accruals are non-interest-bearing and are normally repayable on demand.

23. BALANCES WITH RELATED PARTIES

An analysis of the balances with related parties is as follows:

						Maximum outstanding amount during			
						the year/period ended			
			As at 31 December		As at	31 December			31 May
Notes	2011	2012	2013	2014	2014	2011	2012	2013	2014
HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000									
Amounts due from related parties									
Rugao Honghao	(a)	30,989	32,796	—	—	30,989	32,796	32,796	—
Greatcorp	(a)	8,018	8,018	—	—	8,018	8,018	8,018	—
Dragonfield Management Limited (“Dragonfield”)	(b)	7,200	7,200	—	—	7,200	7,200	7,200	—
Sanlion International Investment Limited..	(b)	—	2,527	—	—	213	2,681	5,400	—
Everbess Water Treatment Investment Limited..	(c)	19	24	—	—	19	24	24	—
Longyan Xindongyang Environmental Protection and Purification Company Limited* (龍岩新東陽環保淨化有限公司)	(b)	24,036	37,913	—	—	24,036	37,913	56,837	—
Mr. Chan Kwan.....	(d)	12,935	14,677	542	—	19,565	14,677	14,677	542
		83,197	103,155	542	—				

		As at 31 December			As at 31 May
	Notes	2011	2012	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts due to related parties					
Sanlion International Investment Limited.....	(b)	99	—	—	—
Longyan Hengfa Electric Industry Co., Ltd.....	(b)	73,258	90,207	—	—
Shanxi Grace Vineyard Company Limited.....	(e)	1,226	—	—	—
Ms. Wong Shu Ying	(f)	415	—	—	—
Mr. Chan Kwan.....	(d)	—	—	8,965	—
		<u>74,998</u>	<u>90,207</u>	<u>8,965</u>	<u>—</u>
Shareholders' loans					
Wealthy Sea Holdings Limited (“Wealthy Sea”).....	(g)	30,822	30,822	30,822	—
Everbest Water Treatment Investment (Haian) Limited (“Everbest Investment Haian”).....	(g)	<u>40,277</u>	<u>40,277</u>	<u>58,507</u>	<u>—</u>
		71,099	71,099	89,329	—

Notes:

- (a) As further detailed in note 30 of Section II to the Financial Information, Rugao Honghao and Greatcorp became the wholly-owned subsidiaries of the Group since 15 February 2013. Prior to the acquisition, Ms. Judy Chan and Ms. Wong Shu Ying, beneficial shareholders of the Group, effectively each hold 50% in Rugao Honghao and Greatcorp.
- (b) These entities are substantially owned by Ms. Judy Chan and Ms. Wong Shu Ying.
- (c) This entity was an intermediate holding company of the Group during the Track Record Period prior to the completion of the Reorganisation on 25 February 2014.
- (d) Mr. Chan Kwan was appointed as an executive director of the Company on 25 February 2014.
- (e) This entity is wholly-owned by Ms. Judy Chan and Ms. Wong Shu Ying.
- (f) Ms. Wong Shu Ying is one of the beneficial shareholders of the Group.
- (g) These entities are the shareholders of Everbest Water Treatment Development prior to the completion of the Reorganisation on 25 February 2014. The amounts were unsecured, interest-free and not repayable within one year. On 25 February 2014, in consideration for cancellation of shareholders' loans of HK\$51,481,000 and HK\$30,822,000 owed by the Group to Everbest Investment Haian and Wealthy Sea, respectively, 623 shares and 373 shares of HK\$1.00 each of Everbest Water Treatment Development were allotted and issued to Everbest Investment Haian, and Wealthy Sea, respectively. The remaining balances had been settled by cash as at 31 May 2014.

* The official name of this entity is in Chinese. The English translation of the name is for identification purposes only.

The balances in respect of items (a) to (f) with these related parties represented advances that were non-trade in nature, unsecured, interest-free and repayable on demand. All of these balances had been settled by cash as at 31 May 2014.

24. INTEREST-BEARING BANK BORROWING

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current				
Interest-bearing bank loan repayable				
within one year or on demand	<u>—</u>	<u>24,878</u>	<u>17,550</u>	<u>13,650</u>

The bank loan as at 31 December 2012 was denominated in RMB and was a floating rate loan at 120% of the People's Bank of China's base lending rate. The loan was secured by land use rights owned by Rugao Economic and Trade Development Company (如皋市經濟貿易開發總公司) ("Rugao ETD Company", a related party of a grantor of service concession arrangements granted to the Group), a personal guarantee of HK\$24,878,000 provided by Mr. Chan Kwan and a corporate guarantee of HK\$24,878,000 provided by Rugao ETD Company. This bank loan was fully repaid in 2013.

The bank loan as at 31 December 2013 and 31 May 2014 was a five-year term loan and was repayable on demand. The bank loan was denominated in US\$ with a floating interest rate at 1.25% above the US\$ prime rate. It was secured by certain of the Group's wastewater treatment concession rights comprising receivables under service concession arrangements of HK\$231,467,000 and HK\$205,396,000 as at 31 December 2013 and 31 May 2014, respectively (note 17). In addition, this loan was secured by personal guarantees provided by Mr. Chan Kwan, Ms. Wong Shu Ying and Mr. Chan Chun Keung (a close family member of certain beneficial shareholders of the Group) and certain properties provided by Ms. Wong Shu Ying and Mr. Chan Chun Keung.

The maturity profile of the loan as at 31 December 2013 and 31 May 2014, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

	Less than 1 year	1 to 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2013	<u>8,467</u>	<u>10,083</u>	<u>—</u>	<u>18,550</u>
At 31 May 2014.....	<u>8,290</u>	<u>5,984</u>	<u>—</u>	<u>14,274</u>

25. DEFERRED TAX

The components of deferred tax assets and liabilities with the net balance recognised in the consolidated statements of financial position and the movements during the Track Record Period are as follows:

	Provision for major overhauls	Temporary differences related to service concession arrangements	Withholding taxes	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011.....	364	(13,202)	(4,592)	(17,430)
Credited/(charged) to profit or loss				
during the year (note 12).....	146	(1,216)	(951)	(2,021)
Exchange realignment	<u>22</u>	<u>(674)</u>	<u>(248)</u>	<u>(900)</u>
At 31 December 2011 and 1 January				
2012	532	(15,092)	(5,791)	(20,351)
Credited/(charged) to profit or loss				
during the year (note 12)	166	(1,926)	(604)	(2,364)
Exchange realignment	<u>6</u>	<u>(145)</u>	<u>(54)</u>	<u>(193)</u>
At 31 December 2012 and 1 January				
2013	704	(17,163)	(6,449)	(22,908)
Credited/(charged) to profit or loss				
during the year (note 12)	238	(2,779)	(2,084)	(4,625)
Acquisition of subsidiaries (note 30).....	66	(4,430)	(2,259)	(6,623)
Exchange realignment	<u>26</u>	<u>(665)</u>	<u>(280)</u>	<u>(919)</u>
At 31 December 2013 and 1 January				
2014	1,034	(25,037)	(11,072)	(35,075)
Credited/(charged) to profit or loss				
during the period (note 12)	124	(1,336)	799	(413)
Exchange realignment	<u>(34)</u>	<u>803</u>	<u>281</u>	<u>1,050</u>
At 31 May 2014.....	<u>1,124</u>	<u>(25,570)</u>	<u>(9,992)</u>	<u>(34,438)</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position and reported as follows:

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net deferred tax liabilities	<u>20,351</u>	<u>22,908</u>	<u>35,075</u>	<u>34,438</u>

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 the PRC. 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 the PRC 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 its subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

26. PROVISIONS FOR MAJOR OVERHAULS

Pursuant to the service concession agreements entered into by the Group, the Group has contractual obligations to maintain the Facilities it operates to a specified level of serviceability and/or to restore the Facilities to a specified condition before they are handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the Facilities, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of each reporting period during the Track Record Period. The future expenditure on these maintenance and restoration costs is collectively referred to as “major overhauls”. The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for major overhauls of the Facilities during the Track Record Period are as follows:

Notes	Year ended 31 December			Five months ended 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of the year/period	1,451	2,121	2,810	4,134
Additional provision	9	494	535	766
Increase in discounted amounts arising from the passage of time.....	8	91	129	187
Acquisition of subsidiaries	30	—	—	266
Exchange realignment		85	25	105
At the end of the year/period		<u>2,121</u>	<u>2,810</u>	<u>4,134</u>
				<u>4,494</u>

27. SHARE CAPITAL

The Reorganisation was only completed on 25 February 2014, hence, the paid-in capital in the consolidated statements of financial position as at 31 December 2011, 2012 and 2013 represented the paid-in capital of Everbest Water Treatment Development and the paid-in capital shown in the consolidated statement of financial position as at 31 May 2014 represented the paid-in capital of the Company.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Authorised:			
100,000 ordinary shares of HK\$1 each	<u>100</u>	<u>100</u>	<u>100</u>
Issued and fully paid:			
4 ordinary shares of HK\$1 each	<u>—</u>	<u>—</u>	<u>—</u>

	As at 31 May 2014
	HK\$'000
Authorised:	
3,800,000,000 ordinary shares of HK\$0.0001 each.....	<u>380</u>
Issued and fully paid:	
600,000,000 ordinary shares of HK\$0.0001 each	<u>60</u>

The Company is a limited liability company incorporated in the Cayman Islands on 25 February 2014 with an initial authorised share capital of HK\$380,000 divided into 3,800,000,000 ordinary shares of HK\$0.0001 each.

The movements in the Company's issued share capital during the period from 25 February 2014 (date of incorporation) to 31 May 2014 were as follows:

	Notes	Number of ordinary shares in issue	Issued capital HK\$'000
At 25 February 2014 (date of incorporation)		—	—
Issue of shares	(i)	1,000	—
Issue of shares pursuant to the Share Swap	(ii)	599,999,000	60
At 31 May 2014		<u>600,000,000</u>	<u>60</u>

Notes:

- (i) On the date of incorporation, one ordinary share was allotted and issued by the Company to the initial subscriber, Mapcal Limited, at HK\$0.0001 per share and such one share was transferred to Wealthy Sea on the same day. On the same day, 625 ordinary shares were allotted and issued to Everbest Investment Haian and another 374 ordinary shares were allotted and issued to Wealthy Sea for cash at par value.
- (ii) On 25 February 2014, Everbest Investment Haian and Wealthy Sea transferred all the shares they held in Everbest Water Treatment Development to a directly wholly-owned subsidiary of the Company in consideration of the Company allotting and issuing 374,999,375 and 224,999,625 ordinary shares to them, respectively (the "Share Swap") in connection with the Reorganisation. Further details are set out in the paragraph "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for each reporting period during the Track Record Period and the five months ended 31 May 2013 are presented in the consolidated statements of changes in equity.

(i) *Other reserve*

The other reserve comprises the shareholders' loans amounted to HK\$82,304,000 capitalised on 25 February 2014 and the reserve arising from the Share Swap.

(ii) *Exchange fluctuation reserve*

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of operations with functional currency other than HK\$.

(iii) *Reserve funds*

The transfers from retained profits to the reserve funds were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC.

(b) **Company**

	Share premium
	HK\$'000
	(Note)
At 25 February 2014 (date of incorporation)	—
Issue of shares pursuant to the Share Swap	113,720
At 31 May 2014	<u>113,720</u>

Note:

The share premium of the Company represents the excess of the carrying amount of investment in Everbest Water Treatment Development over the nominal value of the share capital issued by the Company in the Share Swap.

29. MATERIAL NON-WHOLLY-OWNED SUBSIDIARY THAT HAS A MATERIAL NON-CONTROLLING INTEREST

Details of the Group's subsidiary that has material non-controlling interests are set out below:

Name of subsidiary	Percentage of equity interest held by non-controlling interest as at				Profit for the year allocated to non-controlling interest for the year/period ended				Accumulated balance of non-controlling interest as at			
	31 December	31 December	31 December	31 May	31 December	31 December	31 December	31 May	31 December	31 December	31 December	31 May
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
	%	%	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Haian Hengfa	30	30	30	30	1,556	1,543	1,635	972	22,775	24,521	26,906	27,022

APPENDIX I**ACCOUNTANTS' REPORT**

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	35,988	40,337	55,613	14,312
Non-current assets	89,970	93,084	98,210	96,740
Current liabilities	(42,129)	(42,553)	(53,417)	(9,950)
Non-current liabilities	<u>(7,914)</u>	<u>(9,134)</u>	<u>(10,722)</u>	<u>(11,028)</u>

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Revenue	11,944	12,336	13,203	5,191	10,904
Total expenses	(6,759)	(7,192)	(7,753)	(2,902)	(7,663)
Profit for the year	5,185	5,144	5,450	2,289	3,241
Total comprehensive income for the year/period	<u>8,600</u>	<u>5,820</u>	<u>7,950</u>	<u>3,721</u>	<u>388</u>
Dividends paid to non-controlling interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Net cash flows from/(used in) operating activities	2,125	2,340	337	(92)	8,301
Net cash flows from/(used in) investing activities	29	(141)	(500)	(489)	(87)
Net cash flows from/(used in) financing activities	<u>(3,010)</u>	<u>(246)</u>	<u>22,954</u>	<u>—</u>	<u>(41,010)</u>
Net increase/(decrease) in cash and cash equivalents	<u>(856)</u>	<u>1,953</u>	<u>22,791</u>	<u>(581)</u>	<u>(32,796)</u>

30. ACQUISITION OF SUBSIDIARIES

On 15 February 2013, the Group entered into a sale and purchase agreement with Ms. Wong Shu Ying and Ms. Judy Chan to acquire 100% equity interest in Greatcorp at an aggregate consideration of HK\$18,397,000. Greatcorp and its subsidiary (collectively "Greatcorp Group") are principally engaged in the wastewater treatment services in the PRC. The acquisition was completed on the same day.

The fair values of the identifiable assets and liabilities of Greatcorp Group as at the date of acquisition were as below:

	Notes	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	16	77
Receivables under service concession arrangements		86,692
Prepayments and other receivables		13,121
Inventories		107
Amount due from a related party		7,722
Cash and bank balances		13,350
Trade payables		(301)
Other payables and accruals		(3,046)
Amounts due to related parties		(59,674)
Interest-bearing bank borrowing		(25,350)
Income tax payables		(4,002)
Deferred tax liabilities	25	(6,623)
Provision for major overhauls	26	(266)
Total identifiable net assets at fair value		<u>21,807</u>
Total consideration satisfied by amounts due to beneficial shareholders ...		18,397
Less: Fair value of net assets recognised		<u>(21,807)</u>
Gain on bargain purchase of subsidiaries		<u>(3,410)</u>

The fair values of the receivables under service concession arrangements and other receivables as at the date of acquisition amounted to HK\$86,692,000 and HK\$12,996,000, respectively. The gross contractual amounts of receivables under service concession arrangements and other receivables were HK\$86,692,000 and HK\$12,996,000, respectively. None of these balances are expected to be uncollectible.

Acquisition-related costs are minimal and were expensed in profit or loss for the year ended 31 December 2013.

The bargain purchase was arisen from the acquisition as the Group's interest in net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date exceeds the aggregate of the fair value of the consideration transferred.

An analysis of the cash flows in respect of the acquisition of Greatcorp Group is as below:

	HK\$'000
Cash and bank balances acquired	<u>13,350</u>
Net inflow of cash and cash equivalents included in cash flows from investing activities ..	<u>13,350</u>

Since the acquisition, Greatcorp Group contributed HK\$16,392,000 to the Group's turnover and HK\$9,094,000 to the Group's profit for the year ended 31 December 2013.

Had the combination taken place at the beginning of the year ended 31 December 2013, the Group's revenue and profit for the year would have been HK\$67,300,000 and HK\$34,967,000, respectively.

The financial information of Greatcorp Group as at 31 December 2011 and 2012 and 15 February 2013 and for each of the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013 is disclosed in note 38 of Section II to the Financial Information.

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

During the five months ended 31 May 2014, shareholders' loans of HK\$51,481,000 and HK\$30,823,000 owed by the Group to Everbest Investment Haian and Wealthy Sea, respectively, were capitalised as other reserve upon the completion of the Reorganisation on 25 February 2014.

32. CONTINGENT LIABILITIES

At the end of each reporting period during the Track Record Period, the Group had no significant contingent liabilities.

At 31 May 2014, the Company had no significant contingent liabilities.

33. COMMITMENTS

At the end of each reporting period during the Track Record Period, the Group had the following significant capital commitments with respect of service concession arrangements:

	As at 31 December			As at 31 May
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for	—	—	4,916	5,087
Authorised, but not provided for	—	—	56,753	47,344
	—	—	61,669	52,431

At 31 May 2014, the Company had no significant commitments.

34. RELATED PARTY TRANSACTIONS**(a) Recurring transactions with related parties**

The Group has sub-leased the commercial premises located at Units 1-3, 11th Floor, Westlands Centre, 20 Westlands Road, Hong Kong (the "Office Premises") for use as offices from Dragonfield, a company substantially owned by Ms. Judy Chan and Ms. Wong Shu Ying, during the Track Record Period at nil consideration. Subsequent to the end of the Track Record Period, on 5 September 2014, the Group entered into a commercial premises sub-lease agreement with Dragonfield for the continuing use and occupation of the Office Premises effective, retrospectively, from 27 August 2014 to 26 September 2016 at a rental of HK\$276,000 per annum.

(b) Non-recurring transactions with related parties

- (i) During the Track Record Period, certain of the Group's wastewater treatment concession rights were pledged to secure a bank loan of Greatcorp. This bank loan is also secured by personal guarantees provided by Mr. Chan Kwan, Ms. Wong Shu Ying and Mr. Chan Chun Keung and certain properties provided by Ms. Wong Shu Ying and Mr. Chan Chun Keung. Further details are included in notes 17 and 24 of Section II to the Financial Information.
- (ii) On 15 February 2013, the Group acquired Greatcorp from certain beneficial shareholders of the Group at an aggregate consideration of HK\$18,397,000. Further details of the transaction are included in note 30 of Section II to the Financial Information.

(c) Outstanding balances with related parties

Other than balances with related parties disclosed elsewhere in the Financial Information, the Group had no outstanding balances with related parties as at the end of each reporting period during the Track Record Period.

(d) Compensation of key management personnel of the Group

	Year ended 31 December			Five months ended 31 May	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries, allowances and benefits in kind.....	425	476	522	204	644
Pension scheme contributions.....	6	6	8	3	15
	<u>431</u>	<u>482</u>	<u>530</u>	<u>207</u>	<u>659</u>

Further details of Directors' and chief executive's emoluments are included in note 10 to the Financial Information.

35. FINANCIAL INSTRUMENTS BY CATEGORY

As at the end of each reporting period during the Track Record Period, all the financial assets and liabilities of the Group were loans and receivables and financial liabilities at amortised cost, respectively.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments reasonably approximate to fair values.

Management has assessed that the fair values of the current portion of receivables under service concession arrangements, bills receivable, other receivables, amounts due from and to related parties, cash and cash equivalents, trade payables, other payables and interest-bearing bank borrowing approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team 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 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 fair values of non-current portion of receivables under service concession arrangements have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

During the Track Record Period, there was no transfer of fair value measurement between Level 1 and Level 2 and no transfer into or out of Level 3 for both financial assets and financial liabilities.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

For floating rate bank borrowings, a 50 basis point increase/decrease in interest rate at 31 December 2012 and 2013 and 31 May 2014 would have decreased/increased the Group's profit before tax for the years ended 31 December 2012 and 2013 and the five months ended 31 May 2014 by HK\$124,000, HK\$88,000 and HK\$68,000, respectively.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Individual companies within the Group have limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries mainly carried out transactions in RMB, therefore any appreciation or depreciation of HK\$ against RMB will affect the Group's consolidated financial position and be reflected in the exchange fluctuation reserve.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main credit risk exposure to the Group arises from the default or delinquency in principal payment of receivables under service concession arrangements. The Group has concentration of credit risk in relation to receivables under service concession arrangements as the Group transacts only with two customers whom are municipal governments in the PRC. The receivables under service concession arrangements are monitored on an ongoing basis. In the opinion of the Directors, the credit risk is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, bills receivable, financial assets included in other receivables, and amounts due from related parties, the Group's exposure to the credit risk arises from the default of the counterparties, with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statements of financial position.

Liquidity risk

The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

The maturity profile of the Group's financial liabilities as at the end of each reporting period during the Track Record Period based on the contractual undiscounted payments is as follows:

	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2011					
Trade payables	5,748	—	—	—	5,748
Other payables (note 22)	42,122	—	—	—	42,122
Amounts due to related parties	74,998	—	—	—	74,998
	<u>122,868</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>122,868</u>
At 31 December 2012					
Trade payables	1,476	—	—	—	1,476
Other payables (note 22)	45,410	—	—	—	45,410
Amounts due to related parties	90,207	—	—	—	90,207
Interest-bearing bank borrowing	25,246	—	—	—	25,246
	<u>162,339</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>162,339</u>
At 31 December 2013					
Trade payables	2,474	—	—	—	2,474
Other payables (note 22)	41,968	—	—	—	41,968
Amounts due to related parties	8,965	—	—	—	8,965
Interest-bearing bank borrowing	17,550	—	—	—	17,550
	<u>70,957</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>70,957</u>
At 31 May 2014					
Trade payables	6,095	—	—	—	6,095
Other payables (note 22)	4,373	—	—	—	4,373
Interest-bearing bank borrowing	13,650	—	—	—	13,650
	<u>24,118</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>24,118</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1.

38. ADDITIONAL FINANCIAL INFORMATION OF GREATCORP GROUP

The financial information of Greatcorp Group for the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013 (the date of acquisition of Greatcorp Group) is as below:

Consolidated statements of comprehensive income

		Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
	Notes	HK\$'000	HK\$'000	HK\$'000
REVENUE	i	45,340	18,140	2,210
Cost of sales		(36,369)	(1,252)	(232)
Gross profit		8,971	16,888	1,978
Other income and gains	i	127	1	—
Administrative expenses		(547)	(104)	(1)
Finance costs	ii	(1,198)	(1,383)	(276)
PROFIT BEFORE TAX	iii	7,353	15,402	1,701
Income tax expense	v	(2,853)	(5,356)	(628)
PROFIT FOR THE YEAR/PERIOD		<u>4,500</u>	<u>10,046</u>	<u>1,073</u>
OTHER COMPREHENSIVE INCOME				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Exchange differences on translation of foreign operations		<u>1,904</u>	<u>514</u>	<u>206</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>6,404</u>	<u>10,560</u>	<u>1,279</u>

Consolidated statements of financial position

	Notes	As at 31 December 2011 HK\$'000	As at 31 December 2012 HK\$'000	As at 15 February 2013 HK\$'000
NON-CURRENT ASSETS				
Equipment.....	vi	78	77	77
Receivables under service concession arrangement.....	vii	76,213	75,376	75,332
Total non-current assets		76,291	75,453	75,409
CURRENT ASSETS				
Inventories.....	viii	—	115	107
Receivables under service concession arrangement.....	vii	1,430	21,249	11,360
Prepayments and other receivables	ix	11,734	12,454	13,121
Amount due from a related party	xiii	7,722	7,722	7,722
Cash and cash equivalents.....	x	361	49	13,350
Total current assets		21,247	41,589	45,660
CURRENT LIABILITIES				
Trade payables.....	xi	378	337	301
Other payables and accruals.....	xii	2,751	2,764	3,046
Amounts due to related parties.....	xiii	46,786	57,888	59,674
Interest-bearing bank borrowing.....	xiv	33,150	25,350	25,350
Income tax payable		—	3,552	4,002
Total current liabilities.....		83,065	89,891	92,373
NET CURRENT LIABILITIES.....		(61,818)	(48,302)	(46,713)
TOTAL ASSETS LESS CURRENT LIABILITIES		14,473	27,151	28,696
NON-CURRENT LIABILITIES				
Deferred tax liabilities	xv	4,505	6,409	6,623
Provision for major overhauls	xvi	—	214	266
Total non-current liabilities.....		4,505	6,623	6,889
Net assets		9,968	20,528	21,807
EQUITY				
Issued capital.....	xvii	—	—	—
Reserves	xviii	9,968	20,528	21,807
Total equity		9,968	20,528	21,807

Consolidated statements of changes in equity

	Attributable to owners of the parent				
	Issued capital	Exchange fluctuation reserve*	Reserve funds*	Retained profits*	Total equity
	HK\$'000 (note xvii)	HK\$'000 (note xviii)	HK\$'000 (note xviii)	HK\$'000	HK\$'000
At 1 January 2011.....	—	446	345	2,773	3,564
Profit for the year.....	—	—	—	4,500	4,500
Other comprehensive income for the year:					
Exchange differences on translation of a foreign operation.....	—	1,904	—	—	1,904
Total comprehensive income for the year.....	—	1,904	—	4,500	6,404
Transfer to reserve funds	—	—	678	(678)	—
At 31 December 2011 and 1 January 2012.....	—	2,350	1,023	6,595	9,968
Profit for the year.....	—	—	—	10,046	10,046
Other comprehensive income for the year:					
Exchange differences on translation of a foreign operation	—	514	—	—	514
Total comprehensive income for the year.....	—	514	—	10,046	10,560
Transfer to reserve funds	—	—	1,265	(1,265)	—
At 31 December 2012 and 1 January 2013.....	—	2,864	2,288	15,376	20,528
Profit for the period.....	—	—	—	1,073	1,073
Other comprehensive income for the period:					
Exchange differences on translation of a foreign operation	—	206	—	—	206
Total comprehensive income for the period.....	—	206	—	1,073	1,279
Transfer to reserve funds	—	—	148	(148)	—
At 15 February 2013.....	—	3,070	2,436	16,301	21,807

* These reserve accounts comprise the consolidated reserves of HK\$9,968,000, HK\$20,528,000 and HK\$21,807,000 in the consolidated statements of financial position of Greatcorp Group as at 31 December 2011 and 2012 and 15 February 2013, respectively.

Consolidated statements of cash flows

		Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
	Notes	HK\$'000	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		7,353	15,402	1,701
Adjustments for:				
Interest income	i	(2)	(1)	—
Depreciation	iii	—	2	1
Provision for major overhauls	iii	—	211	48
Finance costs	ii	1,198	1,383	276
		8,549	16,997	2,026
Decrease/(increase) in inventories		—	(114)	8
Decrease/(increase) in receivables under service concession arrangement		(45,197)	(18,140)	10,232
Decrease in prepayments and other receivables		(4,125)	(618)	(623)
Increase/(decrease) in trade payables		369	(43)	(39)
Increase/(decrease) in other payables and accruals		2,647	(8)	275
Cash generated from/(used in) operations		(37,757)	(1,926)	11,879
Income tax paid		—	—	—
Net cash flows from/(used in) operating activities		(37,757)	(1,926)	11,879
CASH FLOWS FROM INVESTING ACTIVITIES				
Payment for purchases of items of property, plant and equipment	vi	(76)	—	—
Interest received		2	1	—
Net cash flows from/(used in) investing activities		(74)	1	—

APPENDIX I**ACCOUNTANTS' REPORT**

		Year ended 31 December 2011 HK\$'000	Year ended 31 December 2012 HK\$'000	Period from 1 January 2013 to 15 February 2013 HK\$'000
	Note			
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank borrowing		33,150	—	—
Repayment of bank borrowing		—	(7,800)	—
Increase in amounts due to related parties		4,083	10,797	1,676
Interest paid		(1,198)	(1,383)	(273)
Net cash flows from financing activities		<u>36,035</u>	<u>1,614</u>	<u>1,403</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		(1,796)	(311)	13,282
Cash and cash equivalents at beginning of year/period		2,099	361	49
Effect of foreign exchange rate changes, net		<u>58</u>	<u>(1)</u>	<u>19</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>361</u>	<u>49</u>	<u>13,350</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	x	<u>361</u>	<u>49</u>	<u>13,350</u>

i. Revenue, other income and gains

Revenue, which is also Greatcorp Group's turnover, represents: (1) revenue from operation of wastewater treatment facility under service concession arrangement and government surcharges; (2) revenue from construction services; and (3) the imputed interest income under service concession arrangement.

An analysis of Greatcorp Group's revenue, other income and gains is as follows:

	Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Revenue			
Wastewater treatment facility operation services*	—	18,140	2,210
Construction services*	45,340	—	—
	<u>45,340</u>	<u>18,140</u>	<u>2,210</u>
Other income and gains			
Interest income	2	1	—
Foreign exchange gains, net	125	—	—
	<u>127</u>	<u>1</u>	<u>—</u>

* Imputed interest income under service concession arrangements amounting to HK\$2,452,000, HK\$3,569,000 and HK\$745,000 for the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013 are included in the revenue derived from "Wastewater treatment facility operation services" and "Construction services" above.

ii. Finance costs

	Note	Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
		HK\$'000	HK\$'000	HK\$'000
Interest on a bank loan wholly repayable within five years.....		1,198	1,383	273
Increase in discounted amounts of provision for major overhauls arising from the passage of time	xvi	—	—	3
		<u>1,198</u>	<u>1,383</u>	<u>276</u>

iii. Profit before tax

Greatcorp Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
	Notes	HK\$'000	HK\$'000	HK\$'000
Cost of wastewater treatment facility operation services rendered		—	1,252	232
Cost of construction services		36,369	—	—
Depreciation	vi	—	2	1
Employee benefit expense:				
Salaries, wages and benefits in kind		—	28	2
Pension scheme contributions*		—	7	1
		—	35	3
Foreign exchange differences, net		(125)	—	—
Provision for major overhauls	xvi	—	211	48

* At 31 December 2011 and 2012 and 15 February 2013, Greatcorp Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

iv. Director's remuneration

No director received any fees or emoluments in respect of the services rendered to Greatcorp Group during the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013.

There were no arrangements under which a director waived or agreed to waive any remuneration during the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013.

During the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013, no remuneration was paid by Greatcorp Group to the director as an inducement to join or upon joining Greatcorp Group or as compensation for loss of office.

v. Income tax

During the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013, Greatcorp Group did not generate any assessable profits arising in Hong Kong and no provision for Hong Kong profits tax had been made. Taxes on assessable profits elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which Greatcorp Group operates:

	Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Current — PRC			
Charge for the year/period	—	3,510	437
Deferred (note xv)	<u>2,853</u>	<u>1,846</u>	<u>191</u>
Total tax expense for the year/period	<u>2,853</u>	<u>5,356</u>	<u>628</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for jurisdiction in which Greatcorp's subsidiary is domiciled to the tax expense at Greatcorp Group's effective tax rate is as follows:

	Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Profit before tax	<u>7,353</u>	<u>15,402</u>	<u>1,701</u>
Tax at the statutory tax rates of different jurisdictions.....	1,980	3,975	449
Effect of withholding tax at 10% on the distributable profits of Greatcorp's subsidiary in the PRC	610	1,139	133
Income not subject to tax.....	(14)	—	—
Expenses not deductible for tax	<u>277</u>	<u>242</u>	<u>46</u>
Tax expense at Greatcorp Group's effective tax rate.....	<u>2,853</u>	<u>5,356</u>	<u>628</u>

vi. Equipment

	Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
At beginning of the year/period			
Cost.....	—	78	78
Accumulated depreciation	—	—	(1)
Net carrying amount	<u>—</u>	<u>78</u>	<u>77</u>
At beginning of the year/period, net of accumulated depreciation.....	—	78	77
Additions	76	—	—
Depreciation	—	(2)	(1)
Exchange realignment	<u>2</u>	<u>1</u>	<u>1</u>
At end of the year/period, net of accumulated depreciation.....	<u>78</u>	<u>77</u>	<u>77</u>
At end of the year/period			
Cost.....	78	78	78
Accumulated depreciation	<u>—</u>	<u>(1)</u>	<u>(1)</u>
Net carrying amount	<u>78</u>	<u>77</u>	<u>77</u>

vii. Service concession arrangement

Greatcorp Group has entered into a service concession arrangement with a governmental authority in the PRC on a BOT basis in respect of its wastewater treatment services. Pursuant to the service concession arrangement, Greatcorp Group has to design, construct, operate and manage a wastewater treatment facility in the PRC for a period of 28 years (the “Service Concession Period”). The governmental authority guarantees that Greatcorp Group will receive minimum annual payments in connection with the arrangement. Greatcorp Group is entitled to use the wastewater treatment facility and the related facilities (the “Rugao Honghao Facility”), however, Greatcorp Group has the obligation to maintain the Rugao Honghao Facility in good condition and the Rugao Honghao Facility will be transferred to the relevant governmental authority at a specified level of serviceability upon expiry of the concession period. The service concession arrangement does not contain renewal options. The BOT agreement does not grant any termination rights to any of the contracting parties.

Greatcorp Group had one service concession arrangement on wastewater treatment with a governmental authority in the PRC and a summary of the major terms of the principal service concession arrangement, as at the date of this report, are set out as follows:

Name of company as operator	Name of wastewater treatment facility	Location	Name of grantor	Type of service concession arrangement	Designed processing capacity ton/day	Service concession period
Rugao Honghao	Rugao Honghao Heavy Metals Wastewater Treatment Facility	Rugao County, Nantong City	Rugao County Economic Development Zone Administration Committee	BOT on wastewater treatment	3,500	28 years from 2011 to 2039

Pursuant to the service concession agreement entered into by Greatcorp Group, Greatcorp Group is granted the rights to use the property, plant and equipment of the wastewater treatment facility and its related land, during the Service Concession Period, but Greatcorp Group is required to surrender these property, plant and equipment to the grantor at a specified level of serviceability at the end of the Service Concession Period. At as 31 December 2011 and 2012 and 15 February 2013, the title certificates with respect to the land use right of the wastewater treatment facility to which Greatcorp Group's service concession arrangement relate did not register under the name of the relevant subsidiary in Greatcorp Group. The Directors are of the opinion that Greatcorp Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use right relates.

Revenue and profit recognised for exchanging construction services for a financial asset amounted to HK\$42,888,000 and HK\$6,519,000, respectively, for the year ended 31 December 2011 and no revenue was recognised for exchanging construction services for a financial asset for the year ended 31 December 2012 and the period from 1 January 2013 to 15 February 2013. During the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013, no revenue was recognised for exchanging construction services for an intangible asset. Revenue relates to the construction and operation services under BOT arrangement are recognised as "Receivables under service concession arrangement" in the Financial Information of Greatcorp Group.

	As at 31 December 2011 HK\$'000	As at 31 December 2012 HK\$'000	As at 15 February 2013 HK\$'000
Receivables under service concession arrangement.....	77,643	96,625	86,692
Portion classified as current assets.....	(1,430)	(21,249)	(11,360)
Non-current portion	<u>76,213</u>	<u>75,376</u>	<u>75,332</u>

APPENDIX I**ACCOUNTANTS' REPORT**

As at 31 December 2011 and 2012 and 15 February 2013, the ageing analysis of receivables under service concession arrangement, based on invoice date, is as below:

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Billed:			
Within 3 months	—	4,980	5,007
4 to 6 months	—	4,980	4,069
7 to 12 months	—	9,835	—
	—	19,795	9,076
Not yet billed	77,643	76,830	77,616
	<u>77,643</u>	<u>96,625</u>	<u>86,692</u>

Receivables under service concession arrangements are usually due for settlement within 10 days after each month end. Exposures to credit risk are monitored on an ongoing basis. Greatcorp Group's sole customer is a local government authority in the PRC and therefore concentration of credit risk existed. Greatcorp Group does not hold any collateral or other credit enhancements over these receivable balances. In view of the fact that the party to the BOT arrangement is a municipal government in the PRC, the Directors consider the credit risk is low.

An ageing analysis of receivables under service concession arrangement that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	77,643	76,830	77,616
Less than 1 month past due	—	1,678	1,694
1 to 3 months past due	—	3,302	3,313
4 to 6 months past due	—	4,980	4,069
7 months to 1 year past due	—	9,835	—
	<u>77,643</u>	<u>96,625</u>	<u>86,692</u>

viii. Inventories

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Raw materials	<u>—</u>	<u>115</u>	<u>107</u>

Inventories mainly comprise materials consumed during the provision of wastewater treatment operation services.

ix. Prepayments and other receivables

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Prepayments.....	20	124	125
Other receivables	<u>11,714</u>	<u>12,330</u>	<u>12,996</u>
	<u>11,734</u>	<u>12,454</u>	<u>13,121</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

Other receivables balances are unsecured, interest-free and have no fixed terms of repayment.

x. Cash and cash equivalents

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	<u>361</u>	<u>49</u>	<u>13,350</u>
Cash and cash equivalents denominated in:			
RMB	350	35	11,094
HK\$	4	12	11
US\$	<u>7</u>	<u>2</u>	<u>2,245</u>
	<u>361</u>	<u>49</u>	<u>13,350</u>

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, Greatcorp 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.

xi. Trade payables

An aged analysis of the trade payables as at 31 December 2011 and 2012 and 15 February 2013, based on the invoice date, is as follows:

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Within 1 month	378	—	—
1 to 3 months	—	—	—
Over 3 months	—	337	301
	<u>378</u>	<u>337</u>	<u>301</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 days.

xii. Other payables and accruals

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Other payables	2,733	2,737	2,745
Accruals	18	27	301
	<u>2,751</u>	<u>2,764</u>	<u>3,046</u>

Other payables and accruals are non-interest-bearing and are normally repayable on demand.

xiii. Balance with related parties

An analysis of the balances with related parties is as follows:

				Maximum outstanding amount during the year/period ended			
		As at 31 December	As at 31 December	As at 15 February	31 December	31 December	15 February
Notes		2011	2012	2013	2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from a related party							
Dragonfield Management Limited							
(a)		<u>7,722</u>	<u>7,722</u>	<u>7,722</u>	<u>7,722</u>	<u>7,722</u>	<u>7,722</u>
Amounts due to the related parties							
Sanlion International Investment Limited							
(a)		3,337	12,597	14,838			
(b)		24,819	26,576	26,083			
(b)		6,170	6,220	6,241			
Everbest Water Treatment Development							
(b)		8,018	8,018	8,018			
(c)		<u>4,442</u>	<u>4,477</u>	<u>4,494</u>			
		<u>46,786</u>	<u>57,888</u>	<u>59,674</u>			

Notes:

- (a) These entities are substantially owned by Ms. Judy Chan and Ms. Wong Shu Ying.
- (b) These entities are substantially owned by Ms. Judy Chan and Ms. Wong Shu Ying. As further detailed in note 30 of Section II to the Financial Information, Greatcorp Group became a wholly-owned subsidiary of the Group since 15 February 2013 and these entities became fellow subsidiaries or the intermediate holding company of Greatcorp Group.
- (c) Mr. Chan Kwan is an executive director of Greatcorp Group.

The outstanding balances represented advances to/from these related parties that are non-trade in nature, unsecured, interest-free and are repayable on demand.

xiv. Interest-bearing bank borrowing

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Current			
Interest-bearing bank loan which contains a repayable on demand clause	<u>33,150</u>	<u>25,350</u>	<u>25,350</u>

The bank loan was a five-year term loan denominated in US\$ with a floating interest rate at 1.25% above the US\$ prime rate. It is secured by the wastewater treatment concession rights of the Group and Greatcorp Group comprising receivables under service concession arrangements of HK\$220,189,000, HK\$246,315,000 and HK\$204,484,000 as at 31 December 2011 and 2012 and 15 February 2013, respectively. In addition, this loan was secured by personal guarantees provided by Mr. Chan Kwan, Ms. Wong Shu Ying and Mr. Chan Chun Keung and certain properties provided by Ms. Wong Shu Ying and Mr. Chan Chun Keung.

The maturity profile of this loan as at 31 December 2011, 2012 and 15 February 2013, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause is as follows:

	Less than 1 year	1 to 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2011	<u>9,183</u>	<u>27,404</u>	<u>—</u>	<u>36,587</u>
At 31 December 2012	<u>8,854</u>	<u>18,550</u>	<u>—</u>	<u>27,404</u>
At 15 February 2013	<u>8,854</u>	<u>18,550</u>	<u>—</u>	<u>27,404</u>

xv. Deferred tax

The components of deferred tax assets and liabilities with the net balance recognised in the consolidated statements of financial position and the movements during the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013 are as follows:

	Provision for major overhauls	Temporary differences related to service concession arrangements	Withholding taxes	Total
	HK\$000	HK\$000	HK\$000	HK\$000
At 1 January 2011.....	—	(1,191)	(318)	(1,509)
Charged to profit or loss during the year (note v).....	—	(2,243)	(610)	(2,853)
Exchange realignment	—	(112)	(31)	(143)
At 31 December 2011 and 1 January 2012	—	(3,546)	(959)	(4,505)
Credited/(charged) to profit or loss during the year (note v).....	52	(760)	(1,138)	(1,846)
Exchange realignment	1	(38)	(21)	(58)
At 31 December 2012 and 1 January 2013	53	(4,344)	(2,118)	(6,409)
Credited/(charged) to profit or loss during the period (note v).....	13	(71)	(133)	(191)
Exchange realignment	—	(15)	(8)	(23)
At 15 February 2013.....	66	(4,430)	(2,259)	(6,623)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position and reported as follows:

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Net deferred tax liabilities	4,505	6,409	6,623

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 the PRC. 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 the PRC and the jurisdiction of the foreign investors. For Greatcorp Group, the applicable rate is 10%. Greatcorp Group is therefore liable for withholding taxes on dividends distributed by its subsidiary established in the PRC in respect of earnings generated from 1 January 2008.

xvi. Provisions for major overhauls

Pursuant to the service concession agreement entered into by Greatcorp Group, Greatcorp Group has contractual obligations to maintain the Rugao Honghao Facility it operates to a specified level of serviceability and/or to restore the facilities to a specified condition before it is handed over to the grantor at the end of the service concession period. This contractual obligation to maintain or restore the Rugao Honghao Facility, except for any upgrade element, is recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at 31 December 2011 and 2012 and 15 February 2013. The future expenditure on these maintenance and restoration costs is collectively referred to as “Major overhauls”. The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for major overhauls of the Rugao Honghao Facility during each of the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013 are as follows:

		Year ended 31 December 2011	Year ended 31 December 2012	Period from 1 January 2013 to 15 February 2013
	Notes	HK\$'000	HK\$'000	HK\$'000
At beginning of the year/period		—	—	214
Additional provision	iii	—	211	48
Increase in discounted amounts arising from the passage of time.....	ii	—	—	3
Exchange realignment		—	3	1
At end of the year/period.....		—	214	266

xvii. Share capital

	As at 31 December 2011	As at 31 December 2012	As at 15 February 2013
	HK\$'000	HK\$'000	HK\$'000
Authorised:			
10,000 ordinary shares of HK\$1 each	<u>10</u>	<u>10</u>	<u>10</u>
Issued and fully paid:			
100 ordinary shares of HK\$1 each.....	<u>—</u>	<u>—</u>	<u>—</u>

xviii. Reserves

The amounts of Greatcorp Group's reserves and the movements therein for the years ended 31 December 2011 and 2012 and the period from 1 January 2013 to 15 February 2013 are presented in the consolidated statements of changes in equity of Greatcorp Group.

(i) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of a subsidiary with functional currency other than HK\$.

(ii) Reserve funds

The transfers from retained profits to the reserve funds were made in accordance with the relevant PRC rules and regulations and the articles of association of Greatcorp's subsidiary established in the PRC.

xix. Contingent liabilities

As at 31 December 2011 and 2012 and 15 February 2013, Greatcorp Group had no significant contingent liabilities.

xx. Commitments

As at 31 December 2011 and 2012 and 15 February 2013, Greatcorp Group had no significant commitments.

xxi. Related party transactions**(a) *Transaction with related parties***

As at 31 December 2011 and 2012 and 15 February 2013, Greatcorp Group's bank loan amounted to HK\$33,150,000, HK\$25,350,000 and HK\$25,350,000, respectively, was secured by the Group's wastewater treatment concession rights. The bank loan is also secured by personal guarantees provided by Mr. Chan Kwan, Ms. Wong Shu Ying and Mr. Chan Chun Keung and certain properties provided by Ms. Wong Shu Ying and Mr. Chan Chun Keung.

(b) *Outstanding balances with related parties*

Other than balances with related parties disclosed elsewhere in the Financial Information of Greatcorp Group, Greatcorp Group had no outstanding balances with related parties as at 31 December 2011 and 2012 and 15 February 2013.

xxii. Financial instruments by category

As at 31 December 2011 and 2012 and 15 February 2013, all the financial assets and liabilities of Greatcorp Group were loans and receivables and financial liabilities at amortised cost, respectively.

xxiii. Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of Greatcorp Group's financial instruments reasonably approximate to fair values.

Management has assessed that the fair values of the current portion of receivables under service concession arrangement, other receivables, amounts due from and to related parties, cash and cash equivalents, trade payables, other payables and interest-bearing bank borrowing approximate to their carrying amounts largely due to the short term maturities of these instruments.

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 fair value of non-current portion of receivables under service concession arrangement has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

During the years ended 31 December 2011 and 2012 and period from 1 January 2013 to 15 February 2013, there was no transfer of fair value measurement between Level 1 and Level 2 and no transfer into or out of Level 3 for both financial assets and financial liabilities.

39. EVENTS AFTER THE TRACK RECORD PERIOD

In addition to events disclosed elsewhere in this Financial Information, the Group has the following material events occurred after the Track Record Period:

- (i) In June 2014, the Group obtained a HK\$ denominated bank loan of HK\$18 million which bears a floating interest rate at a HK\$ prime rate and is repayable on demand and unsecured. The Group undertakes with the bank that any payment of dividends or other similar distribution of Haian Hengfa, Rugao Hengfa and Rugao Honghao to their Hong Kong immediate holding company shall be firstly applied to repay this bank loan.
- (ii) Subsequent to the Track Record Period, on 5 September 2014, the Company declared HK\$30 million of dividends to its shareholders, all of which will be paid in cash prior to the listing of the shares of the Company on the Stock Exchange.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 31 May 2014.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information sets out in this Appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, 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 ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the consolidated net tangible assets of our Group attributable to owners of our Company as if the Share Offer had taken place on 31 May 2014. This unaudited pro forma adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the Share Offer been completed as at 31 May 2014 or any future dates:

	Consolidated net tangible assets attributable to owners of our Company as at 31 May 2014	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	HK\$ (Notes 3 and 4)
Based on an Offer Price of HK\$0.4 per Share	<u>262,721</u>	<u>61,890</u>	<u>324,611</u>	<u>0.406</u>
Based on an Offer Price of HK\$0.6 per Share	<u>262,721</u>	<u>100,490</u>	<u>363,211</u>	<u>0.454</u>

Notes:

1. The consolidated net tangible assets attributable to owners of our Company as at 31 May 2014 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.4 and HK\$0.6 per Share, after deduction of the underwriting fees and other estimated expenses payable by our Group in connection with the Share Offer.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 800,000,000 Shares expected to be in issue immediately following the completion of the Share Offer without taking into account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares or which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme.

4. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account a special dividend of HK\$30,000,000 declared on 5 September 2014 by our Company. Such dividend is expected to be paid before the Listing. Had the special dividend been taken into account, our unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$0.368 (assuming an Offer Price of HK\$0.4 per Share) and HK\$0.417 (assuming an Offer Price of HK\$0.6 per Share), respectively.
5. Except from those mentioned above, no adjustment has been made to our unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group, entered into subsequent to 31 May 2014.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter, receiving from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus, in respect of the Group's unaudited pro forma financial information.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

12 September 2014

The Directors
ELL Environmental Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of ELL Environmental Holdings 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 consists of the pro forma consolidated net tangible assets as at 31 May 2014 and related notes as set out on Section A of Appendix II to the prospectus of the Company dated 12 September 2014 (the “Prospectus”) issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in note 2 to note 5.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the public offer and placing of shares of the Company on the Group's financial position as at 31 May 2014 as if the transaction had taken place at 31 May 2014. 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 five months period ended 31 May 2014, 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 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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 engagement 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 accountant comply with ethical requirements and 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 Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by 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 Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the public offer and placing 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

Set out below is a summary of certain provisions of the Memorandum and Articles of our Company and of certain aspects of the Companies Law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 February 2014 under the Companies Law. The Memorandum and the Articles comprise its constitution.

CONSTITUTION OF OUR COMPANY

1. Memorandum of Association

The Memorandum of Association of our Company was conditionally adopted on 5 September 2014 and states, inter alia, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this prospectus.

2. Articles of Association

The Articles of Association of our Company were conditionally adopted on 5 September 2014 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of our Company consists of ordinary shares. The authorised capital of our Company at the date of adoption of the Articles is HK\$380,000 divided into 3,800,000,000 shares of HK\$0.0001 each.

2.2 *Directors*

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in our Company (whether forming part of its original or any increased capital) shall be at the disposal of our Directors, who 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, as our Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by our Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as our Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of our Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of our Company or any subsidiary*

The management of the business of our Company shall be vested in our Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by our Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by our Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by our Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of our Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment 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 our Director is contractually entitled) must first be approved by our Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective associates which are equivalent to the restrictions imposed by the Companies Law.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in our Company or any such subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with our Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with our Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of our Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to our Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by our Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of our Directors in respect of any contract or arrangement or any other proposal in which our Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which our Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase where our Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which our Director or any of his associates may benefit; or

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which our Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

(g) *Remuneration*

Our Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by our Directors, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst our Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

Our Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

Our Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by our Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as our Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

Our Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of our Company and shall then be eligible for re-election at that meeting.

Our Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between our Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). Our Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as our Director in whose place he is appointed would have held the same if he had not been removed. Our Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of our Company and shall then be eligible for re-election but shall not be taken into account in determining our Directors who are to retire by rotation at such meeting. No person shall, unless recommended by our Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of our Company notice in writing by a member of our Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to our Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and our Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of our Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and our Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of our Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of our Company under the Articles of Association.

At every annual general meeting of our Company one-third of our Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

Our Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

Our Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, 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 meeting of the holders of the shares of that class. To every such

separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 *Alteration of capital*

Our Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Our Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, our Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by our Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;
- (b) cancel any shares which at the date of the passing 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 cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares.

Our Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 *Special resolution — majority required*

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives 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 and includes a special resolution approved in writing by all of the members of our Company entitled to vote at a general meeting of our Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of our Company aforesaid.

2.7 *Voting rights*

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of our Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of our Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by our Directors, no person other than a member of our Company duly registered and who shall have paid all sums for the time being due from him payable to our Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of our Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of our Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 *Annual general meetings*

Our Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of our Company and that of the next.

2.9 *Accounts and audit*

Our Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

Our Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of our Company, or any of them, shall be open to the inspection of members of our Company (other than officers of our Company) and no such member shall have any right of inspecting any accounts or books or documents of our Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by our Directors or by our Company in general meeting.

Our Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of our Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of our Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of our Company for the period covered by the profit and loss account and the state of our Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of our Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by our Company as provided in the Articles of Association to every member of our Company and every holder of debentures of our Company provided that our Company shall not be required to send copies of those documents to any person of whose address our Company is not aware or to more than one of the joint holders of any shares or debentures.

Our Company shall at any annual general meeting appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by our Company at the annual general meeting at which they are appointed provided that in respect of any particular year our Company in general meeting may delegate the fixing of such remuneration to our Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of our Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from our Company).

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of our Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of our Directors and of the auditors;
- (f) the granting of any mandate or authority to our Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to our Directors to repurchase securities of our Company.

2.11 *Transfer of shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as our Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless our Directors otherwise determine, the transferee, and 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 our Company in respect thereof. All instruments of transfer shall be retained by our Company.

Our Directors may refuse to register any transfer of any share which is not fully paid up or on which our Company has a lien. Our Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with our Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as our Directors may reasonably require to show the right of the transferor to make the transfer;

- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of our Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as our Directors may from time to time require) is paid to our Company in respect thereof.

If our Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with our Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of our Company closed at such times for such periods as our Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and our Directors may only exercise this power on behalf of our Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of any subsidiary of our Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 *Dividends and other methods of distribution*

Subject to the Companies Law and Articles of Association, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by our Directors. No dividend may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

Our Directors may from time to time pay to the members of our Company such interim dividends as appear to our Directors to be justified by the profits of our Company. Our Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

Our Directors 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 Directors may also deduct from any dividend or other moneys payable to any member of our Company all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

No dividend shall carry interest against our Company.

Whenever our Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, our Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of our Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of our Company 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 our Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. Our Company may upon the recommendation of our Directors by ordinary resolution resolve in respect of any one particular dividend of our Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of our Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of our Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of our Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of our Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to our Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Our Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, our Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by our Directors and shall revert to our Company.

Our Directors may, with the sanction of the members of our Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution our Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of our Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of our Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to our Directors.

2.15 *Proxies*

Any member of our Company entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of our Company.

Instruments of proxy shall be in common form or in such other form as our Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a

resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by our Directors) the power of attorney or other authority (if any) under which it is signed, or a notorially certified copy of such power or authority, shall be delivered at the registered office of our Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of our Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

Our Directors may from time to time make calls upon the members of our Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of our Company shall (subject to our Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of our Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as our Directors may determine, but our Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, our Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of our Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of our Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of our Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to our Company all moneys which at the date of forfeiture were payable by him to our Company in respect of the shares, together with (if our Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as our Directors may prescribe from the date of forfeiture until payment, and our Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of our Company shall be kept in such manner as to show at all times the members of our Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as our Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as our Directors may impose) be open to inspection by any member of our Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as our Directors may determine for each inspection.

2.18 *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of our Company present in person or by proxy shall be a quorum provided always that if our Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of our Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

The quorum for a separate general meeting of the holders of a separate class of shares of our Company is described in paragraph 2.4 above.

2.19 *Rights of minorities in relation to fraud or oppression*

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 *Procedure on liquidation*

If our Company shall be wound up, and the assets available for distribution amongst the members of our Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of our Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of our Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If our Company shall be wound up, the liquidator may with the sanction of a special resolution of our Company and any other sanction required by the Companies Law, divide amongst the members of our Company in specie or kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of our Company. The liquidator

may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of our Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of our Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 *Untraceable members*

Our Company shall be entitled to sell any shares of a member of our Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) our Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, our Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 February 2014 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3. Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company.

The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5. Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person 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. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12. Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17. Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

APPENDIX III

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANY LAW

18. Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19. Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our Company.

20. Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21. General

Maples and Calder, our Company's legal advisers on Cayman Islands law, have sent to our Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 February 2014. Our principal place of business in Hong Kong is at Units 1-3, 11th Floor, Westlands Centre, 20 Westlands Road, Hong Kong and we were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Division 2 in Part 16 of the Companies Ordinance on 10 April 2014. Mr. Chan of Units 1-3, 11th Floor, Westlands Centre, 20 Westlands Road, Hong Kong was appointed the authorised representative of our Company on 5 September 2014 for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, our operations are subject to the Companies Law and to our constitution, which comprises the Memorandum and the Articles. A summary of the various sections of our constitution and relevant aspects of the Companies Law are set out in Appendix III to this prospectus.

2. Changes in the Share Capital of Our Company

As at the date of incorporation of our Company, the authorised share capital of our Company was HK\$380,000 divided into 3,800,000,000 Shares of nominal value of HK\$0.0001 each. Please refer to the section headed “History, Reorganisation and Corporate Structure” in this prospectus for details relating to the transfer of shares in the issued capital of our Company. Save as disclosed in this prospectus, there has been no alteration in our share capital since the date of our incorporation.

Assuming that the Share Offer becomes unconditional and the options which may be granted under the Share Option Scheme are not exercised, our authorised share capital upon completion of the Share Offer will be HK\$380,000 divided into 3,800,000,000 Shares of which 800,000,000 Shares will be allotted and issued as fully paid or credited as fully paid, and 3,000,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and without the prior approval of our Shareholders at a general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

3. Resolutions of Our Shareholders dated 5 September 2014

On 5 September 2014, our Shareholders passed resolutions in a Shareholders’ meeting to approve the following:

- (a) the Memorandum was adopted with immediate effect and the Articles were adopted conditional upon the Listing;
- (b) the Share Option Scheme was adopted conditional upon the Listing;

- (c) the allotment and issuance of new Shares of up to 200,000,000 pursuant to the Share Offer was approved;
- (d) the granting of a general mandate to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), other than pursuant to, or in consequence of, the Share Offer, a rights issue, any scrip dividend scheme or similar arrangement, any adjustment of rights or subscription for Shares under the options and warrants or a specific authority granted by our Shareholders, Shares with a total nominal value not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme) and the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (e) below was approved, and such granting of a general mandate is conditional upon the Listing;
- (e) the granting of a general mandate to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme) was approved, and such granting of a general mandate is conditional upon the Listing; and
- (f) the granting of the authority to our Directors under paragraph (d) above was approved to be extended by the addition thereto of an aggregate nominal amount of the share capital of our Company repurchased pursuant to the authority granted under paragraph (e) above and such granting of the authority is conditional upon the Listing.

Each of the general mandates referred to in paragraphs (d) and (e) above shall remain in effect until (i) the conclusion of the next annual general meeting of our Company, (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or (iii) until revoked or varied by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first.

4. Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the listing of our Shares on the Stock Exchange. Please refer to the section headed “History, Reorganisation and Corporate Structure” in this prospectus for details.

Following the completion of the Reorganisation, our Company became the ultimate holding company of our principal operating subsidiaries.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries.

As part of the Reorganisation, Everbest Water Treatment Development allotted and issued 623 and 373 shares to Everbest Investment Haian and Wealthy Sea, in consideration for cancellation of loans of HK\$51,481,485.33 and HK\$30,822,783.35 owed by each of them, respectively. Please refer to the section headed "History, Reorganisation and Corporate Structure" in this prospectus for details. Other than 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.

6. Repurchases by Our Company of Our Own Securities

This section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) *Relevant legal and regulatory requirements*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

On 5 September 2014, a general unconditional mandate was granted to our Directors to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of our next annual Shareholders' general meeting, (ii) the date by which our next Shareholders' general meeting is required by applicable laws and our Articles of Association to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of our Shareholders in a general meeting.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association, the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading

rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of our Company's funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of Shares made for the purpose of the repurchase or out of sums standing to the credit of our Company's share premium account. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our Company's share premium account.

(iii) *Trading restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities on the Stock Exchange if that repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) *Status of repurchased Shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) *Suspension of repurchase*

A listed company may not make any repurchase of securities after any inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules), and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarter or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) *Reporting requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day (as defined in the Listing Rules). In addition, a listed company's annual report and accounts are required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the repurchase price per share or the highest and lowest price paid for all such repurchase, and where relevant, the aggregate prices paid.

(vii) *Connected persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person and a core connected person is prohibited from knowingly selling his securities to the listed company.

(b) *Reasons for repurchases*

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and our Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining.

(c) *Funding of repurchases*

There could be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) *General*

The exercise in full of the repurchase mandate, on the basis of 800,000,000 Shares in issue immediately following the completion of the Share Offer and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, could accordingly result in up to 80,000,000 Shares being repurchased by our Company during the period prior to the earliest of:

- (i) the conclusion of our next annual general meeting;

- (ii) the expiration of the period within which our next annual general meeting is required by any applicable law or our Articles to be held; or
- (iii) the revocation or variation of the authority given by an ordinary resolution of our Shareholders in a general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the share purchase agreement dated 15 February 2013 entered into between Ms. Wong and Ms. Chan as vendors and Everbest Water Treatment Development as purchaser, pursuant to which Ms. Wong and Ms. Chan each sold 50% of the issued share capital in Greatcorp for an aggregate consideration of HK\$18,397,000 to Everbest Water Treatment Development;

- (b) the instruments of transfers and bought and sold notes dated 15 February 2013 signed by Ms. Wong and Ms. Chan as transferors and Grand Target as transferee, pursuant to which each of Ms. Wong and Ms. Chan transferred 50 shares in Greatcorp to Grand Target for an aggregate consideration of HK\$18,397,000;
- (c) the deed of novation dated 31 December 2013 entered into among Greatcorp, Dragonfield Management Limited and Everbest Investment Haian, pursuant to which Dragonfield Management Limited novated to Everbest Investment Haian its obligation to repay a loan of HK\$8,118,391.82 to Greatcorp;
- (d) the deed of assignment dated 31 December 2013 entered into between Everbest Investment Haian as assignor and Everbest Water Treatment Development as assignee, pursuant to which Everbest Investment Haian assigned to Everbest Water Treatment Development its rights to receive repayment of HK\$22,426,468.36 from Greatcorp;
- (e) the deed of novation dated 31 December 2013 entered into among Dragonfield Management Limited, Everbest Investment BVI, Sanlion International Investment Limited, Wide Angle Management Limited, Everbest Investment Haian and Everbest Water Treatment Development, pursuant to which each of Dragonfield Management Limited, Everbest Investment BVI, Sanlion International Investment Limited and Wide Angle Management Limited novated to Everbest Investment Haian their obligations to pay HK\$7,199,973.00, HK\$28,704.00, HK\$7,814,688.39 and HK\$7,550,000.00, respectively, to Everbest Water Treatment Development;
- (f) the deed of confirmation dated 25 February 2014 entered into among Everbest Water Treatment Development, Everbest Investment Haian and Wealthy Sea, pursuant to which the parties confirmed that in consideration of the issue of 623 and 373 shares in Everbest Water Treatment Development to Everbest Investment Haian and Wealthy Sea, respectively, the amounts of HK\$51,481,485.33 and HK\$30,822,783.35 owed by Everbest Water Treatment Development to Everbest Investment Haian and Wealthy Sea, respectively, were deemed to have been repaid;
- (g) the share transfer agreement dated 25 February 2014 entered into among Everbest Investment Haian and Wealthy Sea as the vendors and our Company as the purchaser, pursuant to which all issued shares in Everbest Water Treatment Development held by the vendors were transferred to ELL BVI, as directed by our Company, in consideration of our Company allotting and issuing 374,999,375 and 224,999,625 Shares to Everbest Investment Haian and Wealthy Sea, respectively;
- (h) the deed of non-competition dated 5 September 2014 entered into among our Controlling Shareholders and our Company (for ourselves and as trustee for each of our subsidiaries), pursuant to which our Controlling Shareholders undertook, among other things, not to directly or indirectly, engage in activities or business that competes or is likely to compete, directly or indirectly, with our Group's wastewater treatment business, as further disclosed in the section headed "Relationship with our Controlling Shareholders" in this prospectus;

- (i) the deed of indemnity dated 5 September 2014 entered among our Controlling Shareholders and our Company (for ourselves and as trustee for each of our subsidiaries), pursuant to which our Controlling Shareholders undertook, among other things, to indemnify us for all the losses and damages suffered by us as a result of our failure to have obtained or maintained, any approvals, permits, licences and certificates required for our operations or any other non-compliance incidents, any non-performance, violation or breach by Dragonfield Management Limited of any terms and provision of the Sub-lease Agreement as detailed in the section headed “Connected Transaction” in this prospectus or any tax liability in connection with events or transactions that took place prior to Listing; and
- (j) the Public Offer Underwriting Agreement.

2. Intellectual Property Rights of Our Group

A. *Trademark*

As at the Latest Practicable Date, we had registered the following material trademark:

Trademark	Owner	Place of Registration	Class	Trade Mark Number	Date of Registration (dd/mm/yy)
	Everbest Water Treatment Development	Hong Kong	40	302842416	19/12/13

B. *Domain name*

As at the Latest Practicable Date, we were the registered proprietor of the following domain name:

Domain Name	Name of Registrant	Next Renewal Date (dd/mm/yy)
www.ellhk.com	Our Company	25/09/14

Save as aforesaid, there are no other trademarks, patents, other intellectual or industrial property rights which are material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Disclosure of Interests and Short Positions of Directors and Chief Executive of Our Company in the Shares, Underlying Shares or Debentures of Our Company and Its Associated Corporations

Immediately following the completion of the Share Offer (without taking into account any Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), save as disclosed below, none of our Directors and chief executive of our Company will have any interests or short positions in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or which will be required to be disclosed, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”):

Directors’ long positions in the Shares of our Company

Name of Director	Name of Corporation	Nature of Interest	Total Number of Shares	Approximate Percentage of Shareholding
Mr. Chan ⁽¹⁾	Everbest Environmental ⁽¹⁾	Controlled Corporation	375,000,000	46.9%
Mr. Chau ⁽²⁾	Wealthy Sea ⁽²⁾	Controlled Corporation	225,000,000	28.1%

Notes:

- (1) Everbest Environmental is held as to 50%, 30% and 20% by Ms. Wong, Ms. Chan and Mr. Chan, respectively. Ms. Wong and Ms. Chan are deemed to be interested in the 375,000,000 Shares held by Everbest Environmental pursuant to the SFO. Ms. Wong is the mother of both Ms. Chan and Mr. Chan.
- (2) Wealthy Sea is held as to 90% and 10% by Mr. Chau and Ms. Wong Mei Ling, the spouse of Mr. Chau, respectively. Ms. Wong Mei Ling is deemed to be interested in the 225,000,000 Shares held by Mr. Chau, through their controlled corporation, Wealthy Sea, pursuant to the SFO.
- (3) All the above Shares are held in long position.

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Share Offer, have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company 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 the share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group. Please refer to the section headed “Substantial Shareholders” in this prospectus for further information.

2. Particulars of Service Contracts

(a) Mr. Chau and Mr. Chan, each an executive Director, have entered into a service contract with us for an initial term of three years commencing on 5 September 2014 which shall be terminated in accordance with the provisions of the service contract by either party giving to the other not more than three months' prior notice in writing.

The annual remuneration of the executive Directors payable by our Company are as follows:

	HK\$'000
Mr. Chau	197
Mr. Chan	163

(b) Chan Pak Lam Brian and Chau Chi Yan Benny have been appointed as non-executive Directors for an initial term of three years commencing from 5 September 2014 with the following annual remuneration:

	HK\$'000
Chan Pak Lam Brian	80
Chau Chi Yan Benny	80

(c) Each of Ng Chung Yan Linda, Ng Man Kung and Sze Yeuk Lung Benedict has been appointed as an independent non-executive Director for an initial term of three years commencing from 5 September 2014 with the following annual remuneration:

	HK\$'000
Ng Chung Yan Linda.....	120
Ng Man Kung	120
Sze Yeuk Lung Benedict	80

3. Directors' Remuneration

Our Group paid an aggregate amount of remuneration to the relevant Directors, in their capacity as Director and our employees (where applicable), of approximately HK\$151,000, HK\$154,000, HK\$158,000 and HK\$64,000 for the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014, respectively. Such amounts also comprised the aggregate amount of remuneration paid by our Group to our five highest paid individuals.

The aggregate amount of remuneration which was paid by our Group to our five highest paid individuals for the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014 was approximately HK\$556,000, HK\$628,000, HK\$682,000 and HK\$743,000, respectively. Please refer to Note 11 to the Accountants' Report set out in Appendix I to this prospectus for details.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014.

There were no arrangement under which a Director waived or agreed to waive any remuneration during the years ended 31 December 2011, 2012 and 2013 and the five months ended 31 May 2014.

It is estimated that remuneration and benefits in kind, excluding any discretionary bonus payable to our Directors, amounting to approximately HK\$0.4 million in aggregate, will be paid and granted to our Directors by us in respect of the financial year ending 31 December 2014 under arrangements in force at the date of this prospectus.

Our Directors anticipate that they will periodically review the compensation levels of our key executives. Based on our Group's performance and our executives' respective contributions to our Group, our Directors may, with the approval of our remuneration committee, grant salary increases or pay bonuses to executives. These increases or bonuses could result in the incurrence of compensation expense at levels that are significantly higher than those we have incurred previously.

4. Disclaimers

Save as disclosed this prospectus:

- (i) none of our Directors or chief executive of our Company has any interest or short positions in the Shares, underlying Shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the 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 in that section, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our Shares are listed;
- (ii) taking no account of any Shares which may be taken up under the Share Offer and allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, so far as is known to any of our Directors or our chief executive, no person has an interest or short position in the Shares and underlying Shares of our Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is 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 our general meetings;

- (iii) none of our Directors nor any of the parties listed in the paragraph “E. Other Information — 6. Consents of Experts” 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;
- (iv) none of our Directors nor any of the parties listed in the paragraph “E. Other Information — 5. Qualification of Experts” in this appendix, has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus, been 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;
- (v) none of the parties listed in the paragraph “E. Other Information — 5. Qualification of Experts” in this appendix (a) is interested legally or beneficially in any of our Shares or any shares of any of our subsidiaries, or (b) has any right or option (whether legally enforceable or not) to subscribe or to nominate persons to subscribe securities in any member of our Group; and
- (vi) none of our Directors, their respective close associates or Shareholders of our Company, which to the knowledge of our Directors owns more than 10% of the issued share capital of our Company, has any interests in the five largest suppliers of our Group during the Track Record Period.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted in a Shareholders’ meeting convened on 5 September 2014. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to enable our Company to grant options to Eligible Participants (as defined in paragraph 2 below) as incentives or rewards for their contribution or potential contribution to our Group.

2. Eligible Participants

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 5 below to any full-time or part-time employees, or potential employees, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or any of its subsidiaries and any suppliers, customers, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to our Company and/or any of its subsidiaries (the “**Eligible Participants**”).

3. Acceptance of an Offer of Options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such remittance shall in no circumstances be refundable and shall be deemed as part payment of the exercise price. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it must be accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option in the manner as set out in this paragraph. To the extent that the offer to grant an option is not accepted by the acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs 11, 13, 14 and 15 below, an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial adviser as the case may be pursuant to paragraph 17, our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

4. Maximum Number of Shares

The maximum number of Shares in respect of which options under the Share Option Scheme and any other share option schemes of our Company may be granted is 10% of the Shares in issue immediately upon completion of the Share Offer, being 80,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose the number of Shares which would be issued on the exercise in full of the options granted under the Share Option Scheme or any other schemes of our Company but not cancelled, lapsed or exercised; the number of Shares which have been allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or any other schemes of our Company; and the number of cancelled Shares. Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (a) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by our Shareholders in a general meeting; and/or

- (b) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The Scheme Limit or the New Scheme Limit shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph 17 below whether by way of capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

5. Price of Shares

The exercise price in relation to each option offered to an Eligible Participant shall, subject to the adjustments referred to in paragraph 17, be determined by the Board (or its committee) in its sole discretion, save that such price shall not be less than the highest of:

- (a) the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant, which must be a day on which the Stock Exchange is open for business of dealing in securities;
- (b) the average of the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days (as defined in the Listing Rules) immediately preceding the date of grant; and
- (c) the nominal value of a Share,

provided that for the purpose of determining the exercise price where the Shares have been listed on the Stock Exchange for less than five business days (as defined in the Listing Rules) preceding the date of the grant, the issue price of the Shares in connection with such listing shall be deemed to be the closing price of the Shares for each business day (as defined in the Listing Rules) falling within the period before Listing.

6. Granting Options to Connected Persons

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board determines to offer to grant options to a substantial shareholder or an independent non-executive Director or any of their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other schemes of our Company in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue or such other percentage as may be from time to time provided under the Listing Rules, of the Shares in issue on the date of such grant; and
- (b) having an aggregate value, based on the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of each grant, in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules,

such grant will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by our Company to our Shareholders and the approval of our Shareholders in general meeting on a poll at which all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (a) the details of the number and terms (including the exercise price) of the options to be granted to each Eligible Participant which must be fixed before the shareholders' meeting and the date of the grant, which shall be the date of Board meeting at which the Board proposes to grant the proposed options to such Eligible Participant;
- (b) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (c) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (d) the information required under Rule 2.17 of the Listing Rules.

7. Restrictions on the Times of Grant of Options

A grant of options may not be made after inside information has come to our Company's knowledge until our Company has announced the information. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for our Company to publish an announcement of the results for any year, or half-year period in accordance with the Listing Rules, and where our Company has elected to publish them, any quarterly or any other interim period,

and ending on the actual date of publication of the results for such year, half-year, quarterly or interim period (as the case may be).

No options shall be granted during the period of 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 during the period of 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.

8. Rights are Personal to Grantee

An option and an offer to grant an option is personal to the grantee and is not transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option held by him or any offer relating to the grant of an option made to him or attempt to do so (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

9. Time of Exercise of Option and Duration of the Share Option Scheme

Unless otherwise provided in the respective grantee's offer document, each of the grantees to whom an option has been granted under the Share Option Scheme shall be entitled to exercise his/her option in the following manner:

- (a) up to 33% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the first anniversary of the date (the "**Commencement Date**") on which such option is granted and ending on the expiry of the period (the "**Option Period**") to be notified by the Board to each grantee within which the option may be exercisable provided that such period of time shall not exceed a period of ten years commencing on the Commencement Date;

- (b) up to 66% of the Shares that are subject to the option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the second anniversary of the Commencement Date and ending on the expiry of the Option Period; and
- (c) up to 100% of the Shares that are subject to the Option so granted to him/her (rounded down to the nearest whole number) at any time during the period commencing from the third anniversary of the Commencement Date and ending on the expiry of the Option Period.

10. Performance Target

A grantee may be required to achieve performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

11. Rights on Ceasing Employment/Death

If the grantee of an option ceases to be an Eligible Participant:

- (a) by any reason other than death, ill-health, injury, disability or termination of his relationship with our Company and/or any of its subsidiaries on one of more of the grounds specified in paragraph 12 below, the grantee may exercise the option up to his entitlement at the date of cessation of being an Eligible Participant (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) following the date of such cessation (which date shall be, in relation to a grantee who is an Eligible Participant by reason of his employment with our Company or any of its subsidiaries, the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not); or
- (b) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of our Board) and none of the events which would be a ground for termination of his relationship with our Company and/or any of its subsidiaries under paragraph 12 has occurred, the grantee or his personal representative(s) shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the options in full (to the extent not already exercised).

12. Rights on Dismissal

If the grantee of an option ceases to be an Eligible Participant by reason of his resignation or dismissal, or by reason of the termination of his relationship with our Company and/or any of the subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee or consultant of our Company and/or any of its subsidiaries (if so determined by our Board) on any other ground on which an employer would be entitled to unilaterally terminate his employment or

service at common law or pursuant to any applicable laws or under the grantee's service contract with our Company or the relevant subsidiary, the grantee's options will lapse on the date on which he ceases to be an Eligible Participant. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive.

13. Rights on Takeover

If a general offer (whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror (as defined in the Takeovers Code)), our Company shall use its best endeavours to procure that such offer is extended to all the grantees (on the same terms *mutatis mutandis*, and assuming that they shall become, by the exercise in full of the options granted to them, Shareholders). If such offer, having been approved in accordance with the applicable laws and regulatory requirements, becomes or is declared unconditional, the grantee (or his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

14. Rights on Winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company, give notice thereof to all grantees and thereupon, each grantee (or in the case of the death of the grantee, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

15. Rights on Compromise or Arrangement between our Company and its Members or Creditors

If a compromise or arrangement between our Company and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice to all the grantees of the options on the same day as it despatches to its members and/or creditors of our Company a notice summoning the meeting to consider such a compromise or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to

12 noon (Hong Kong time) on the business day (as defined in the Listing Rules) immediately prior to the date of the proposed meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavour to procure that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full, as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, the Shares to be allotted upon the exercise of an option shall be subject to all the provisions of the Articles and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of our Company as attached to the fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue. Shares issued on the exercise of an option shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

17. Effect of Alterations to Capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer (if there is a price-dilutive element), subdivision, consolidation of shares or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the exercise price per Share of each outstanding option and/or the Scheme Limit, the New Scheme Limit and the Maximum Limit as the auditors of our Company or an independent financial adviser shall certify in writing to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes. The capacity of the auditors of our Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all the issuers relating to share option schemes (the “**Supplemental Guidance**”) as that to which he was entitled to subscribe had he exercised all the options held by him immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value. Any adjustment to be made in accordance with this paragraph shall comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time. In respect of any adjustments required by this paragraph 17, other than any made on a capitalisation issue, the auditors or the approved independent financial adviser, as the case may be, shall confirm to the Board in writing that the adjustments satisfy the requirements set out in Rule 17.03(13) of the Listing Rules and the note thereto and the Supplemental Guidance and/or such other requirement prescribed under the Listing Rules from time to time. In no circumstances shall the exercise price be less than the par value of the Shares.

18. **Expiry of Option**

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the date of expiry of the option as may be determined by the Board;
- (b) the expiry of any of the periods referred to in paragraphs 11, 13, 14 and 15;
- (c) the date on which the scheme of arrangement of our Company referred to in paragraph 15 becomes effective;
- (d) subject to paragraph 14, the date of commencement of the winding-up of our Company;
- (e) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee’s resignation or dismissal, or by termination of his relationship with our Company and/or any of its subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty in relation to an employee or consultant of our Company and/or any of its subsidiaries (if so determined by the Board) or any other grounds on which an employer would be entitled to unilaterally terminate his employment or service at common law or pursuant to any applicable laws or under the grantee’s service contract with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

- (f) the date that is 30 days after the date on which the grantee is terminated by our Company and/or any of the subsidiaries on a ground other than those set forth in paragraph 18(e); and
- (g) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph 8 above or the options are cancelled in accordance with paragraph 20 below.

19. Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (a) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (b) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Share Option Scheme),

must be made with the prior approval of our Shareholders in general meeting at which any persons to whom or for whose benefit the Shares may be issued under the Share Option Scheme and their respective associates shall abstain from voting, provided that the amended terms of the Share Option Scheme or the options shall remain in compliance with Chapter 17 of the Listing Rules and no alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such option prior to such alteration, except with (i) the consent in writing of grantees holding in aggregate options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths in nominal value of all Shares which would fall to be issued upon the exercise of all options outstanding on that date, or (ii) the sanction of a special resolution. Written notice of any alterations made in accordance with paragraph 19 shall be given to all grantees.

20. Cancellation of Options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any option is cancelled pursuant to paragraph 8.

21. Termination of the Share Option Scheme

Our Company may by resolution in general meeting or the Board at any time resolve to terminate the operation of the Share Option Scheme and in such event, no further options shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

22. Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided therein) shall be final and binding on all parties.

23. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (a) the passing of the necessary resolutions by our Shareholders to approve and adopt the rules of the Share Option Scheme;
- (b) the Listing Committee granting the listing of, and permission to deal in, the Shares falling to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, following the waiver(s) of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (d) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in this paragraph 23 are not satisfied within six calendar months from the Adoption Date:

- (a) the Share Option Scheme shall forthwith terminate;
- (b) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (c) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

24. Disclosure in Annual and Interim Reports

Our Board shall procure that details of the Share Option Scheme and other schemes of our Company and its subsidiaries are disclosed in its annual and interim reports in compliance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 80,000,000 Shares in total.

E. OTHER INFORMATION

1. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any material legal, arbitral or administrative proceedings and we are not aware of any material legal, arbitral or administrative proceedings pending or threatened by or against us.

2. The Sponsor

The Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules and has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). The Sponsor will receive documentation fees of HK\$5.0 million for acting as the sponsor to the Share Offer.

3. Preliminary Expenses

The preliminary expenses of our Company were approximately HK\$42,000 and are payable by our Company.

4. Taxation of Holders of Shares

(1) *Tax on dividends*

No tax is payable in Hong Kong in respect of dividends paid by us.

(2) *Profits*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on individuals. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

(3) Stamp duty

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, and 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. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5.00. Where a sale or purchase of shares registered on the Hong Kong branch share register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty.

(4) Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose deaths occur on or after 11 February 2006. Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, BVI and the PRC.

(5) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, the Sponsor, our Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

5. Qualification 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>
BDO Financial Services Limited	Internal control consultant
CBRE	Industry consultant
Ernst & Young	Certified public accountants
King & Wood Mallesons	PRC legal advisers

Name	Qualification
Maples and Calder	Cayman Islands attorneys-at-law
Mr. Kim Min Ju	Barrister-at-law
Quam Capital Limited	Licensed corporation under the SFO permitted to carry out type 6 (advising on corporate finance) regulated activity

6. Consents of Experts

Each of the experts set out in paragraph 5 above has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included in this prospectus the form and context in which it is respectively included.

None of the experts named in paragraph 5 above has any shareholding 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.

7. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

8. 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 Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). The English text of this prospectus shall prevail over the Chinese text.

9. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the Share Offer and the related transactions described in this prospectus.

10. Miscellaneous

- (i) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (c) no debenture or convertible debt securities of our Company or any of our subsidiaries is outstanding;
 - (d) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (e) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (f) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share of our Company or any of our subsidiaries.
- (ii) Our Directors confirm that:
 - (a) up to the date of this prospectus, save as disclosed in the sections headed “Summary — Material Adverse Changes” in this prospectus, there has been no material adverse change in the financial or trading position of our Group since 31 May 2014 (being the date to which the latest audited consolidated financial statements of our Group were prepared); and
 - (b) 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 preceding the date of this prospectus.
- (iii) The principal register of members of our Company will be maintained in the Cayman Islands by Maples Fund Services (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Boardroom Share Registrars (HK) Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong branch share registrar and may not be lodged in the Cayman Islands.

- (iv) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (v) Our Directors have been advised that, under the Companies Law, the use of a Chinese name by our Company for identification purposes only does not contravene the Companies Law.

11. Tax and other indemnity

Each of our Controlling Shareholders (collectively the “**Indemnifiers**”) has entered into a deed of indemnity in favour of our Group (being a material contract referred to in the paragraph headed “B. Further Information about Our Business — 1. Summary of Material Contracts” of this Appendix) to provide the following indemnities in favour of our Group. Under the deed of indemnity, the Indemnifiers will, amongst others, jointly and severally indemnify each of the members of our Group against taxation falling on any member of our Group resulting from or by reference to any income, profits or gains accrued or received (or deemed to be so earned, accrued or received) on or before the date when the Share Offer becomes unconditional. The Indemnifiers further jointly and severally undertake to indemnify each of the members of our Group on demand against any losses, damages, costs or expenses which may be suffered or incurred in connection with any form of taxation or taxation claim or any foregoing property related loss or claim.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation where, amongst others, (i) provision has been made for such taxation in the audited accounts of our Group, and (ii) the taxation arises or is incurred as a result of a retrospective change in law or regulation or the interpretation thereof or practice by the relevant tax authority coming into force after the date on which the Share Offer becomes unconditional or to the extent that the taxation arises or is increased by an increase in rates of taxation as a result of a change in law or regulation or interpretation thereof or practice by the relevant tax authority after the date on which the Share Offer becomes unconditional with retrospective effect.

The Indemnifiers will, jointly and severally, indemnify and at all times keep us fully indemnified, on demand from and against all losses, claims, actions, demands, liabilities, damages, costs (including but not limited to legal and other professional costs), expenses, fines, payments, sums, outgoing fees, penalties, orders, judgment and losses of whatever nature suffered or incurred by any of the members of our Group directly or indirectly as a result of and in connection with the incidents referred to in the section headed “Business” in this prospectus and any non-performance, violation or breach by Dragonfield of any terms and provisions of the Sub-lease Agreement as detailed in the section headed “Connected Transaction” in this prospectus.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of the Companies in Hong Kong for registration were:

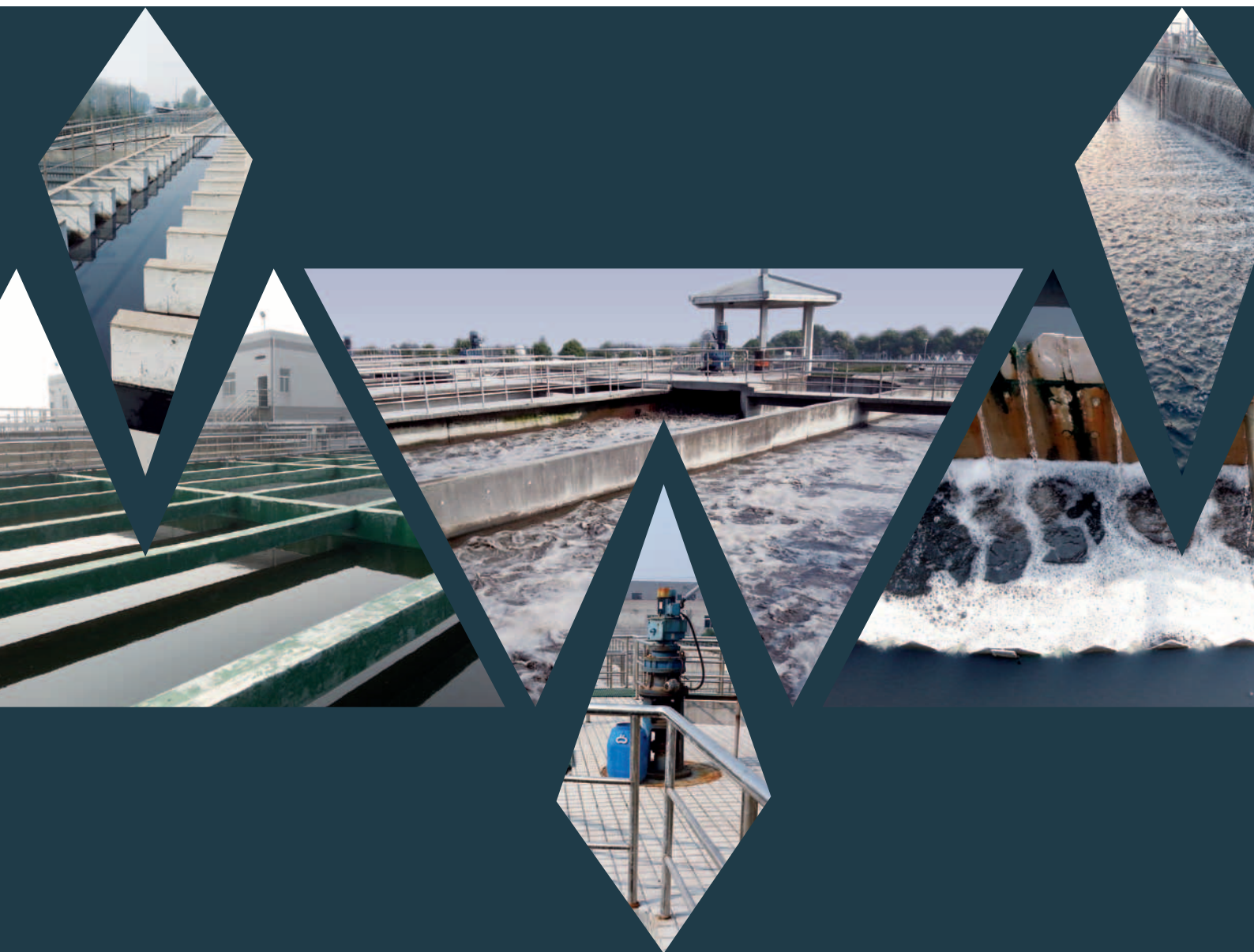
- (i) a copy of each of the **WHITE** and **YELLOW** Application Forms;
- (ii) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix IV to this prospectus; and
- (iii) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Michael Tam & Co. in association with Berwin Leighton Paisner (HK) LLP at 11th Floor, 50 Connaught Road Central, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (i) the Memorandum and the Articles;
- (ii) the Accountants’ Report on our Group from Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (iii) the report from Ernst & Young in respect of the unaudited pro forma financial information, the text of which is set out in Section B of Appendix II to this prospectus;
- (iv) the report from BDO Financial Services Limited in respect of its review on our Group’s enhanced internal control measures;
- (v) the industry report from CBRE in respect of the wastewater treatment industry in the PRC;
- (vi) the letter from Maples and Calder summarising our constitution and certain aspects of the Companies Law as referred to in Appendix III to this prospectus;
- (vii) the Companies Law;
- (viii) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;

- (ix) the service agreements and letters of appointment referred to in the section headed “Statutory and General Information — C. Further Information about our Directors — 2. Particulars of Service Contracts” in Appendix IV to this prospectus;
- (x) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix IV to this prospectus;
- (xi) the Share Option Scheme;
- (xii) the legal opinions issued by King & Wood Mallesons, our PRC legal advisers, in respect of general matters, property interests and taxation matters of our Group; and
- (xiii) the legal opinion issued by Mr. Kim Min Ju, barrister-at-law, in respect of our Group’s compliance with certain Hong Kong laws and regulations.



ELL
Environmental
Holdings Limited